V&S

V&S Group
Annual Report 2006

Contents

INFORMATION IN 2007

The AGM will take place on 20 March in Stockholm, Sweden.

Quarterly reports will be published on 27 April, 23 August and 31 October.

The Annual Report, quarterly reports and a presentation of V&S Group are available in Swedish and English at vsgroup.se and vsgroup.com respectively.

V&S Group in brief

V&S Group is one of the world's leading international spirits companies with sales on around 125 markets. The biggest product is ABSOLUT VODKA, the third largest international spirits brand in the world. V&S is the leading producer and distributor of wines and spirits in Northern Europe. Its product portfolio includes many strong own brands for international, regional and local sales, as well as agency products. The Group has wholly-owned operations in ten countries.

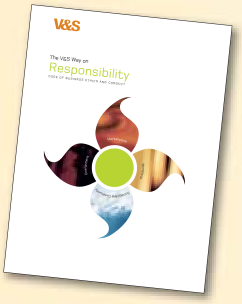
V&S is continuing to create growth and strengthen its profitability by:

- Developing and strengthening the ABSOLUT VODKA brand.
- Securing its position as the leading alcoholic beverage company in Northern Europe.
- Acquiring and developing spirits brands with international potential.

	BUSINESS AREAS	BRANDS	OPERATIONS
V&S ABSOLUT SPIRITS		ABSOLUT VODKA, Cruzan Rum, Frïs Vodka, Level Vodka, Plymouth Gin.	Produces and sells spirits in the premium segment on the global market. The biggest product is ABSOLUT VODKA. The premium segment is characterized by good growth. The largest markets are in North America and in Western Europe. V&S has one of the world's largest, most advanced production facilities in Åhus and Nöbbelöv, Sweden. The business area also has production in Plymouth, Great Britain and St Croix in the US Virgin Islands.
V&S DISTILLERS		Aalborg Akvavit, 1-Enkelt, Explorer Vodka, Gammel Dansk, Grönstedts Cognac, Luksusowa, Malteserkreuz, Minttu, O.P. Anderson, Pan Tadeusz, Polska Wódka, Tapio Viina etc.	Produces and sells local and regional spirits brands for the Northern European market. The largest categories are vodka, aquavit and bitters. V&S Distillers is a leader on the Nordic spirits market, which is a rather mature market. Production takes place in Aalborg, Grenaa, Otterup and Svendborg in Denmark, Turku in Finland, Zielona Góra in Poland, Sundsvall in Sweden and Buxtehude in Germany.
V&S WINE		V&S: Blossa, California White, Chill Out, Chymos, Opal Springs, Santa Christina etc. Partners: Codorníu, Gallo, Gato Negro, Kumkani, Penfolds, Raimat etc.	Produces and imports wines and fortified wines for Northern Europe, both own brands and those of international partners. The Nordic wine market, where V&S Wine is a leader, has some growth. Distribution generates lower operating margins than the Group's other operations but it ties up less capital and can yield a good return on capital employed. Logistics centres are located in Stockholm in Sweden, Turku in Finland and Odense in Denmark.

Broad approach to corporate citizenship

V&S makes goal-conscious efforts towards sustainable development on the market, in society, at the workplace and for the environment. Continuous training and information initiatives which are systematically followed up and evaluated enable all employees to act in such a way that V&S can contribute to a sustainable society. By allowing the company's core values to permeate the entire business, V&S wants to become a model of corporate citizenship in the alcoholic beverage industry.



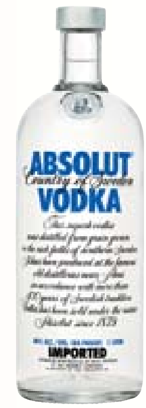
Strategically important distribution

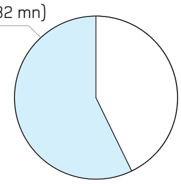
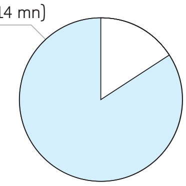
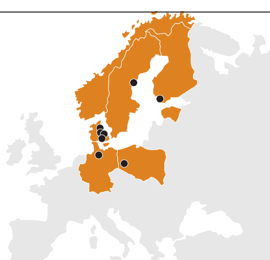
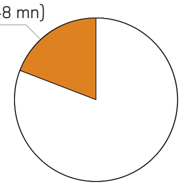
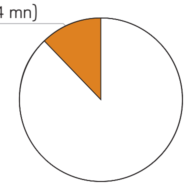
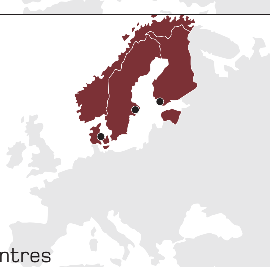
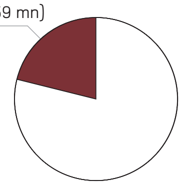
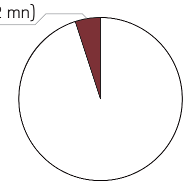
Efficient distribution is becoming an increasingly important competitive tool. Strong distribution channels improve service for customers while also reducing costs and increasing profitability.

V&S has efficient, integrated distribution from its own production and from business partners to customers in Northern Europe. V&S has strategic holdings in the distribution organizations Future Brands (49 per cent), the second largest sales organization on the important US market, and Maxxium (25 per cent) which covers around 60 other major markets.

Strong brands

V&S has a strong brand portfolio which includes the world's third largest premium spirits brand, ABSOLUT VODKA. V&S's experience in brand development and marketing aims to develop the product portfolio further to make it more attractive to customers and to create growth. Innovative efforts continuously strengthen the company's existing brands. New brands are developed and potential premium brands are acquired to complement and strengthen the existing product portfolio.

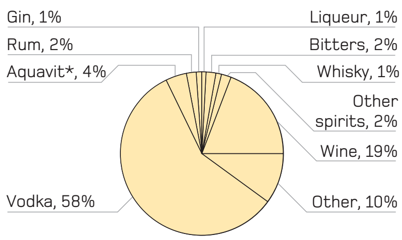


MARKETS	DISTRIBUTION	SALES* Compared to Group total	OPERATING PROFTIT* Compared to Group total
 • Production	• V&S organization in Northern Europe. • Future Brands in the United States. • Maxxium on most other important markets. • Independent distributors on other markets.	57% (SEK 5,882 mn) 	84% (SEK 1,914 mn) 
 • Production	Own distribution organization in Poland and co-ordinated own distribution for the Nordic region.	19% (SEK 1,948 mn) 	12% (SEK 284 mn) 
 • Logistics Centres	Own co-ordinated distribution organization for the whole market area for both V&S brands and partners' brands.	21% (SEK 2,159 mn) 	5% (SEK 112 mn) 

* The business area's sales and operating profit include internal sales.

Significant events and key ratios

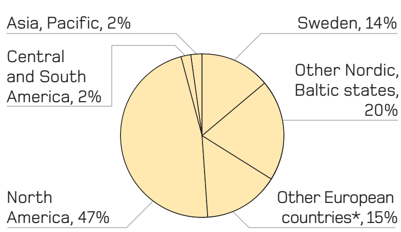
NET SALES BY PRODUCT CATEGORY



* Including other spiced spirits.

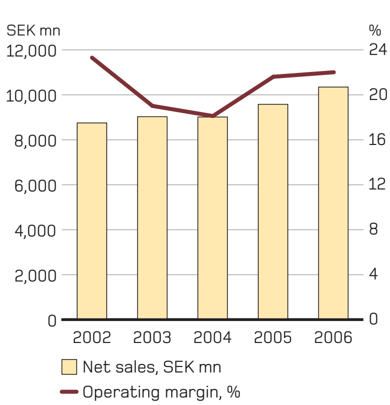
- Group net sales for 2006 increased by 8 per cent to SEK 10,345 (9,578) million.
- Operating profit increased by 10 per cent to SEK 2,275 (2,069) million.
- Profit after tax totalled SEK 1,577 (1,506) million, an increase of 5 per cent.
- Sales volumes increased by 3 per cent to 25.7 million 9-litre cases (24.9).
- All business areas have strengthened their profitability.
- The Group's most important brand, ABSOLUT VODKA, continued to increase both its volumes and sales in the United States, and on most other prioritized markets.
- At the end of 2006, V&S and Foster's Wine Estates signed a business agreement for the entire Nordic market. The agreement covers Foster's entire wine portfolio including Lindemans and Penfolds.
- The remaining 37 per cent of shares in Cruzan International, Inc., with Cruzan Rum, were acquired in 2006.
- An investment of USD 153 million in Beam Global Spirits & Wine, Inc., ensures that V&S maintains its strategic 10 per cent shareholding.
- Carbon dioxide emissions per litre of product sold fell by 6 per cent.

NET SALES BY GEOGRAPHICAL MARKET



* Including CIS, the Middle East and Africa.

NET SALES AND OPERATING MARGIN



KEY RATIOS FOR THE GROUP

	2006	2005	2004	2003	2002
Net sales, SEK mn	10,345	9,578	9,013	9,028	8,750
Operating profit, SEK mn	2,275	2,069	1,634	1,717	2,037
Operating margin, %	22.0	21.6	18.1	19.0	23.3
Profit after tax, SEK mn	1,577	1,506	1,099	994	1,265
Return on shareholders' equity, %	22.3	25.1	23.2	22.8	32.0
Interest-bearing net liability, SEK mn	5,267	5,153	4,053	6,230	8,086
Debt/equity ratio, times	0.7	0.7	0.8	1.4	1.9
Cash flow before financing activities, SEK mn	–74	68	1,082	1,980	418
Equity/assets ratio, %	40.5	40.2	34.8	30.2	26.9
Dividend/equity, %	10.5	10.6	8.5	8.0	15.7
Sales volume, million 9-litre cases	25.7	24.9	24.6	23.4	19.3
Average number of employees	2,304	2,245	2,283	2,273	1,751

For definitions, see Review 1997–2006.

Another good year

I am very pleased to report that both profitability and growth increased in 2006. Sales increased by 8 per cent and operating profit by 10 per cent. Key drivers behind this success are continued strong growth in sales for ABSOLUT VODKA and higher profitability on our Nordic home market.

The acquisition of the strategically important Cruzan Rum was completed. The brand is already established in the United States but also has significant international potential. An important agreement was signed with Foster's Wine Estates, whereby V&S will distribute all Foster's wine brands on the Nordic market from the spring 2007. This is the largest wine distribution contract ever signed in the Nordic region, and it confirms V&S's leading Nordic structure.

HIGHER PROFITABILITY IN ALL BUSINESS AREAS

I find it particularly pleasing that all three business areas improved their profitability in 2006, just as they did in 2005. It clearly shows that our focus on products with higher margins and on key markets, has achieved results.

V&S Absolut Spirits, which is responsible for the Group's international spirits brands, has strengthened its position through continued positive development of ABSOLUT VODKA both in the United States and on most other prioritized markets. For the first time, sales volumes for ABSOLUT VODKA outside the United States are higher than those in the United States. I would also like to mention that all our international brands are showing strong growth.

V&S Distillers, which is responsible for the sale of spirits in Northern Europe, has continued to focus on brands with the highest profitability in 2006. A decision on the future production structure in the Nordic region has also been taken, which will contribute to a more efficient production.

V&S Wine has given priority to products with higher margins during the year, while also reducing costs. This has resulted in a considerable increased profitability. The pan-Nordic agreement with Foster's has great potential for the wine organization, and consolidates V&S's position as the leading wine distributor in the Nordic region.

INVESTMENT AND CONSOLIDATION

V&S has remained active in the international consolidation on the spirits market. In addition to the aforementioned Cruzan Rum acquisition, V&S took part in a new share issue by Beam Global Spirits & Wine, Inc., in order to maintain the 10 per cent holding V&S originally acquired in the co-distribution agreement. The reason for the new share issue was the acquisition of Allied Domecq carried out by Beam and Pernod Ricard in 2005. The acquisition made Beam the fourth largest player on the international spirits market.

LOWER CO_2 EMISSIONS

V&S's ambition of becoming the most responsible company in the industry has required a continued focus on corporate responsibility during the year. In this context, I would like to emphasize our successful efforts in environmental issues. In 2005, the targets for carbon dioxide emissions were achieved a year in advance. The new target is to reduce carbon dioxide emissions by 25 per cent per litre sold product to 2010. Some other important initiatives are a responsible marketing course specifically targeting sales and marketing employees, and an interactive course, including corporate responsibility issues, for all employees.

A LEADER IN WINES AND SPIRITS

V&S's vision is global leadership on the wine and spirits market. In my opinion this means being the best in our industry. Not the biggest, but rather the best in a few defined areas: In creating value for our owners, customers, partners and consumers, in building brands that are appreciated by consumers, and having the courage to act responsibly.

OUR STRATEGY REMAINS

V&S's strategies are to continue to develop the ABSOLUT VODKA brand, to strenghten V&S's position in Northern Europe, and to develop and expand the international brand portfolio. Our strong brands are vital assets that must be nurtured and developed. Over the next year, we will focus on continued profitable growth, while still actively seeking acquisition opportunities.

GROWTH AND PROFITABILITY

One of our overall challenges is to continue to grow and at the same time increase profitability in all parts of the organization.

Continued marketing investments in ABSOLUT VODKA will help strengthen the position in the United States, and a continued focus on prioritized markets will maintain solid growth outside of the United States. With V&S's global distribution capabilities, knowledge and marketing skills, Cruzan Rum and Level Vodka will contribute to the Group's growth and profitability.

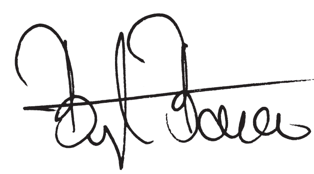
Efforts to increase profitability in the Northern European operation will continue. The key is to focus on the most profitable products and on streamlining costs.

With these strategies as the foundation, we hope to be able to further increase profitability in the coming year.

STRONG PLATFORM FOR THE FUTURE

I am proud of what V&S and all its employees have achieved during the year. The excellent result give us a strong platform and the resources to continue investing for the future, both in existing business and in acquisitions.

V&S will continue to be a dynamic company. We will constantly scrutinize our operation to assure ourselves the company is evolving. We will invest in attractive business opportunities, and we will re-evaluate our operation in areas that are less successful. This is the key to long-term success. The world around us is constantly changing and competition is intensifying all the time. To remain at the top, V&S must always be one step ahead of its competitors and in tune with the modern consumer.



Bengt Baron

Development of strong brands creates growth

V&S has enjoyed profitable growth for the past 10 years. V&S will continue to grow by developing existing and new brands and by acquiring spirits with international potential.

STRATEGIES

- To develop and strengthen the ABSOLUT VODKA brand.
- To secure the position as the leading alcoholic beverage company in Northern Europe.
- To acquire and develop spirits brands with international potential.

In 2006, V&S has continued to develop the company according to its overall strategies. The ABSOLUT VODKA brand has been developed and strengthened during the year through:

- Development of more powerful marketing for ABSOLUT VODKA in the United States and other prioritized markets.
- A strengthened organization.
- Development of flavoured vodka: ABSOLUT RUBY RED which was launched in spring 2006, and ABSOLUT PEARS which was launched at the beginning of 2007 in the United States.

The development work has resulted in a 7 per cent increase in the sales volume for ABSOLUT VODKA during the year. The strong organization means the operation is well-equipped for continued good growth.

To strengthen its position as the leading alcoholic beverage company in Northern Europe, V&S has continued its focus on the strongest brands in that market. In December, V&S and Foster's Wine Estates signed an business agreement for the entire Nordic market. As a result of the agreement, V&S's offering to wine customers and its market position in the Nordic region will strengthen considerably in 2007. At the same time the company has continued its streamlining efforts in the Nordic region during the year, which has improved profitability. This process will also continue in 2007 in order to further strengthen profitability in the Northern European operation.

V&S will also acquire and develop spirits brands with international potential in order to continue growing in the long term. In 2005, V&S acquired 63 per cent of Cruzan International, Inc., with Cruzan Rum. The remaining 37 per cent of the shares were acquired in 2006. V&S's global distribution power and market know-how will contribute to good growth for Cruzan Rum in the years to come. Super premium brand Level Vodka has continued its strong development. Sales volume increased by 29 per cent in 2006 and it is the third largest super premium vodka on the American market.

FOCUS ON PROFITABLE GROWTH

Investments in brands, products and markets will create growth and long-term profitability, and the proportion of products with good margins will increase. Acquisitions and expansion on prioritized growth markets will contribute further to increased growth.

STRONG BRANDS

V&S has a strong product portfolio which includes the world's third largest premium spirits brand, ABSOLUT VODKA. Growth is generated through the continued development of the company's existing and new brands, and through acquisitions of potential premium brands that strategically complement and strengthen the existing product portfolio. V&S is focusing on brands that are strong internationally or in Northern Europe.

STRATEGICALLY IMPORTANT DISTRIBUTION

Efficient distribution is becoming an increasingly important competitive tool for companies on the wines and spirits market. Companies which establish strong distribution channels can reduce costs and increase profitability. V&S has its own efficient, integrated distribution from its own production or from business partners to customers in Northern Europe. V&S also has strategic holdings in the distribution organizations Future Brands and Maxxium. Strong international collaborations are important for gaining entry to the Duty Free & Travel Retail market, which mainly sources products from distributors representing the strongest brand portfolios.

FUTURE BRANDS

V&S has strong distribution on the important United States market through its 49 per cent holding in Future Brands LLC, the second largest sales organization for spirits in the United States. The remaining 51 per cent is owned by Beam Global Spirits & Wine, Inc. In 2006, Future Brands distributed 23.7 million 9-litre cases with an invoice value of USD 1.4 billion excluding excises.

MAXXIUM

Maxxium Worldwide B.V. is a joint organization for marketing, sales and distribution of alcoholic beverages, and is owned in equal shares by V&S Group, Rémy Cointreau, The Edrington Group and Beam. Maxxium primarily markets the co-owners' leading brands. With just over 1,700 employees in over 35 countries, Maxxium covers around 60 markets. In the latest accounting year, July 2005 – March 2006, Maxxium sold or supplied 22.4 million 9-litre cases for EUR 988.2 million and reported a net profit after tax of EUR 22.1 million. Rémy Cointreau intends to terminate its contract with Maxxium from 30 March 2009.

EFFICIENT PROCESSES

V&S is continuously working to improve its internal processes such as production, distribution, marketing and sales, to reduce its costs and improve efficiency.

To enhance V&S's efficiency, the business areas collaborate in various spheres. V&S Distillers and V&S Wine operate in virtually the same markets. V&S Wine is responsible for both business areas' logistics, while V&S Distillers is responsible for the business areas' production and bottling.

V&S Distillers markets V&S Absolut Spirits brands such as ABSOLUT VODKA, Level Vodka, Plymouth Gin and Cruzan Rum in Northern Europe. V&S Absolut Spirits is responsible, via Maxxium, for the distribution of some V&S Distillers products on markets outside Northern Europe.

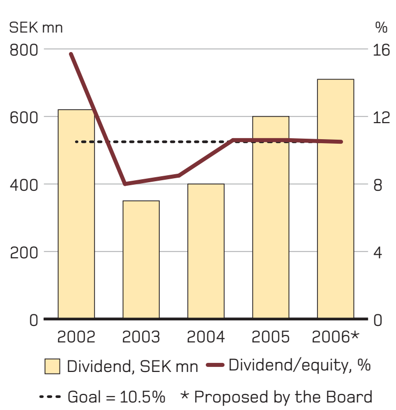
In Åhus, V&S has one of the world's most energy-efficient production facilities. Production also takes place in Plymouth in Great Britain, St Croix in the US Virgin Islands, Sundsvall in Sweden, Turku in Finland, Aalborg, Grenaa, Otterup and Svendborg in Denmark, Zielona Góra in Poland and Buxtehude in Germany.

LONG-TERM CORPORATE RESPONSIBILITY

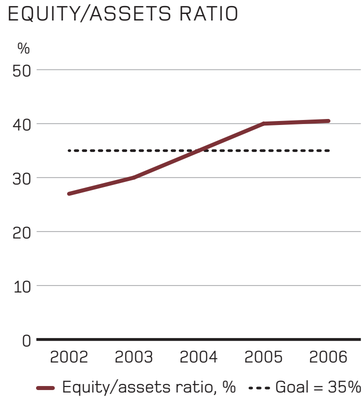
In the long term, corporate responsibility strengthens the company and its profitability. As a Nordic-based company, corporate responsibility regarding alcohol's role in society is nothing new to V&S. However, the issue has grown increasingly important in Europe, North America and in Asia too. V&S has expanded its participation in industry-wide projects relating to codes of conduct and responsible alcohol consumption.

Reducing greenhouse gas emissions has long been a priority for V&S. Carbon dioxide emissions have decreased for several years and V&S is working in a goal-oriented way to further reduce its impact on the climate.

DIVIDEND



EQUITY/ASSETS RATIO



FINANCIAL GOALS

The Group's financial goals were established in 2005 and apply up to and including 2010.

- The Group's equity/assets ratio shall be 35 per cent.
- The Group's dividend shall be 10.5 per cent of average equity in the long term. When establishing the dividend, the company's financial position and expected capital needs must be taken into consideration.

This year's proposed dividend of SEK 710 millions, as well as the average over five and ten years respectively exceed the set goal. The equity/assets ratio amounted to 40 per cent in 2006 and thereby exceeded the goal. The overall financial goals are translated internally within the Group to a 12.5 per cent return on adjusted capital employed for the business areas.

CHALLENGES AND OPPORTUNITIES

The alcoholic beverage market is characterized by a global market which on the whole is stable. This market, however, does have product segments and geographical markets with excellent growth. The segment showing the strongest growth is the premium segment, while the United States is the

VISION

V&S's vision is global leadership on the wine and spirits market,
based on
- ability to create value.
- skills to build brands admired and enjoyed by consumers.
- courage to act responsibly.

CORE VALUES

Dynamic
We are always up to the challenge on an ever-changing market. Our business sense and discipline helps us to be flexible, fast and successful without losing focus on financial performance.

Responsibility
V&S acts in a way that allows us to look other people in the eye with pride and stand by what we do. We therefore wish to be seen as a role model for our industry.

Innovative
We foster an innovative spirit that encourages us to challenge conventions and lead the market. Successful business solutions are often the result of a new approach to an existing situation.

Long-term performance
We have endurance when we invest in brands, products, markets and people. We do not sacrifice long-term results for short-term gains.

largest market. There is, therefore, good potential for V&S to grow as the company has great experience and strength from its success with premium brand ABSOLUT VODKA and through its long, successful presence on the American market.

The spirits market is characterized by stable consumption patterns which are slow to change. Consequently it takes a long time to establish a new brand on the global market. One of the two premium brands to achieve a world-leading position over the past 50 years is ABSOLUT VODKA, which was launched in 1979. Many new brands are launched, but few break through on the global market. V&S has the preconditions required to establish new brands on the global market: a long-term perspective, innovation, market know-how, distribution power and cash flows from established strong brands.

The Northern European market has shown weak development for several years and is subject to strong competition. V&S is working to develop the products and offerings in an innovative manner, to be even more attractive to customers. At the same time the organization has developed to satisfy customer needs, be more efficient and increase profitability.

V&S'S REMIT

V&S Vin & Sprit AB (publ) is a corporation wholly-owned by the Kingdom of Sweden, with the task of being one of several competing companies in the alcoholic beverage market. In December 2006 the Swedish government announced its intention to reduce its shareholding in the company.

IMPORTANT DATES IN V&S'S HISTORY

1917 The company is founded as a national monopoly for the production, import, export and wholesale trade of alcoholic beverages in Sweden.

1979 Exports of ABSOLUT VODKA begin to the United States, and later to other markets.

1995 Sweden becomes a member of the European Union. The company's domestic monopoly ceases.

1999 V&S launches expansion through acquisitions in Northern Europe, including Danish Distillers. Lost market shares in Sweden are replaced by strong positions in neighbouring countries.

2001 V&S builds a global distribution network through its part-ownership of Future Brands and Maxxium.

2003 Luksusowa, other Polish brands and production facilities in Zielona Góra are acquired.

2006 The acquisition of Cruzan International, Inc., which began in 2005, is completed and Cruzan Rum is integrated into V&S's operation.

Leader in prioritized markets

Major global brands are gaining ground. V&S operates on the international premium spirits market, which is characterized by good growth. V&S's largest market is the United States, while at the same time many of V&S's other prioritized markets are reporting strong growth. V&S is the leading operator for spirits and wines in Northern Europe.

THE WORLD MARKET

The market for alcoholic beverages can be divided into markets for spirits, wines, beers and other alcoholic beverages. Beer accounts for 75 per cent, wine for 13 per cent and spirits for 9 per cent of the total volume consumed on the alcoholic beverage market. Other alcoholic beverages constitute only a marginal percentage.

V&S currently operates in:

- The global market for premium spirits.
- The Northern European market for premium spirits and locally established spirits.
- The Northern European market for wine.

Alcoholic beverages originated in Asia, from where they spread to Europe and subsequently to the Western Hemisphere. Today Asia accounts for almost half the global market for spirits. China alone represents almost a quarter of all global consumption. Europe including the CIS accounts for one-third of global consumption. North and South America account for almost 20 per cent, while Africa and the Middle East have far smaller percentages of the global market.

MARKET TRENDS

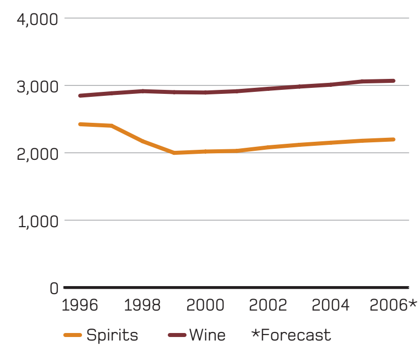
Beer consumption has increased by just over 25 per cent in the past 10 years, particularly in Asia. Global wine consumption has generally been stable but with a slight increase in the past five years. Spirits consumption fell in the late 1990s, mainly in China as a result of tax rises, but it has increased somewhat in recent years. The premium segment of the spirits market, however, is showing slightly higher growth.

Europe is showing relatively constant total consumption. A shift of beverage consumption habits over several decades is, however, apparent between Southern Europe's wine tradition and Northern Europe's spirits tradition. In Southern Europe the relative share of spirits consumption has increased and wine has decreased, while the opposite shift is taking place in Northern Europe.

Growth on the global alcoholic beverage market is mainly expected to take place in North America, which has had far lower alcohol consumption per capita

GLOBAL WINE AND SPIRITS MARKET

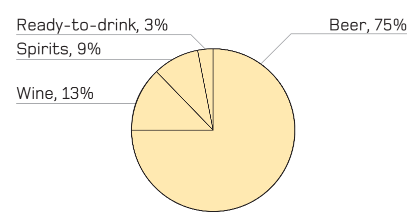
Million 9-litre cases



Source: International Wine & Spirit Record (IWSR).

ALCOHOLIC BEVERAGE CONSUMPTION WORLDWIDE

% of volume 2005



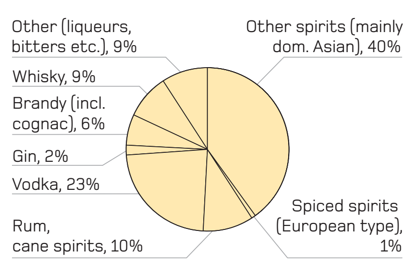
Source: International Wine & Spirit Record (IWSR).

THE PREMIUM SEGMENT

The premium segment makes up a small proportion of the global market, but is one of the segments in the alcoholic beverage market with the highest growth and good margins. The segment is therefore very important to spirits companies. The segment is usually defined as quality brands that retail for approximately USD 20 per bottle in the United States. Super premium products are those that retail for USD 30 and upwards in the United States.

GLOBAL SPIRITS MARKET BY CATEGORY

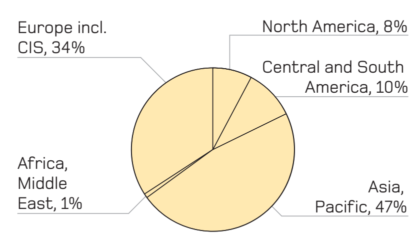
% of volume 2005



Source: International Wine & Spirit Record (IWSR).

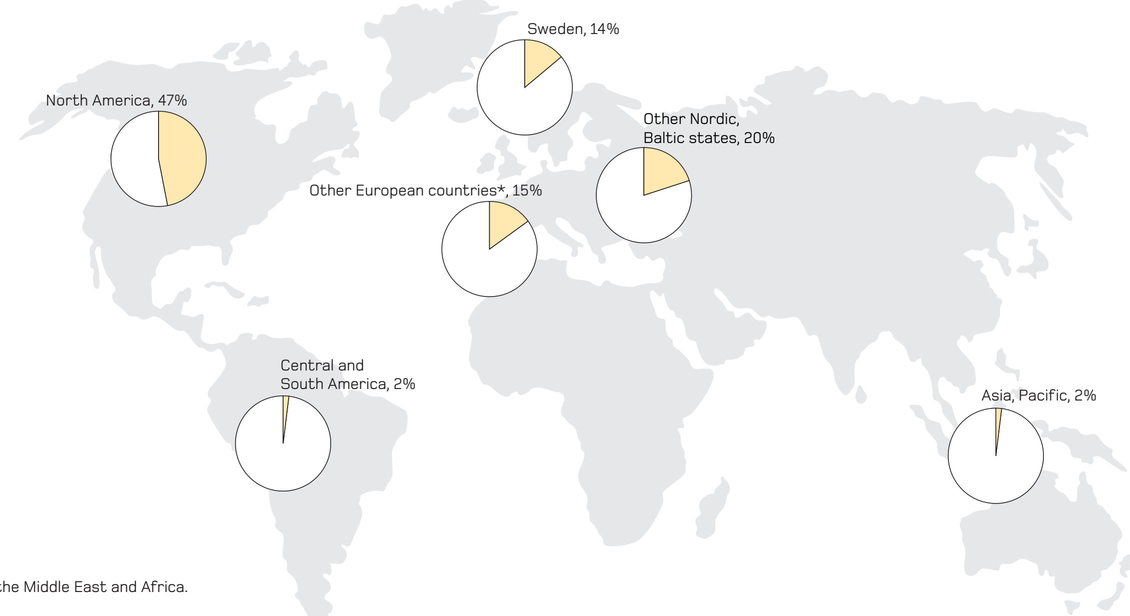
GLOBAL SPIRITS MARKET BY REGION

% of volume 2005



Source: International Wine & Spirit Record (IWSR).

V&S NET SALES 2006 BY GEOGRAPHICAL MARKET



* Including CIS, the Middle East and Africa.

than Europe. Consumption is increasing in the United States due to a larger population and greater purchasing power. The American market for premium spirits is the largest in the world.

On some major spirits markets, such as China and Russia, total consumption is stagnating but demand for the more exclusive, expensive alcoholic beverages is increasing in line with the rapid increase in wealth. In Southern Asia, India is facing increased growth in the premium segment in particular. With a forecasted stronger, more stable economy, there may also be growth in the premium segment in Central and South America.

Growth segments

Greater prosperity in the world is resulting in a shift towards more expensive brands, known as premium products. Internationalization is leading to increasingly global consumption patterns. This has led to a decline in consumption for spirit brands traditionally considered local, while international brands are gaining ground.

Vodka has been developing strongly for some time. Global vodka consumption is dominated by Russia, but is also increasing on the other continents, particularly in the United States. Rum comes both as a matured and a white spirit. The matured version is primarily consumed as a traditional spirit in some regions. In the United States dark rum is experiencing growth, particularly flavoured products. It is worth noting that although all spirits compete with each other, white rum and tequila compete with vodka, particularly on the American market.

INDUSTRY DEVELOPMENT

The alcoholic beverage industry has been characterized by downward pressure on costs in order to increase profitability. This is due to e.g.:

- Distribution collaborations to reduce costs.
- Acquisitions and mergers to achieve benefits of scale and cost effectiveness.
- Streamlining of operations, which also has led to consolidation, tending towards fewer yet larger units.
- Comprehensive attempts to launch new premium brands.

The development towards fewer yet larger, globally active corporations is linked to the fact that there are benefits of scale to be gained all along the chain, from product development and production to distribution and marketing. Companies that establish strong distribution channels can reduce costs and increase profit margins. International spirits companies have improved their profitability in recent years and operating margins are around 20 per cent.

Retail consolidation

There is also advanced consolidation in the retail stage. This is resulting in fewer but larger retailers which are often found on many markets and in some cases several continents. As large retailers make large purchases they hold considerable sway with suppliers. The number of business arrangements between producers/wholesalers and retailers is decreasing, as retailers are increasingly buying large quantities directly from producers. Developments in the retail stage are resulting in demands for suppliers to have:

- Broad product portfolios of strong brands.

- The ability to deliver large quantities over extensive market areas.
- A scale sufficiently large to ensure the financial strength to deal with tough contractual terms.

This development in the retail stage is further forcing the pace of consolidation in the producer and distribution stages. Retailers are also working with private labels to increase their margins. This is mainly putting pressure on the producers' standard and low-price segments. At the same time, the importance of premium brands with high consumer demand is increasing.

V&S ON THE MARKET

The majority of spirits consumption in Asia, South America and the CIS relates to locally or regionally produced standard products. V&S's markets are therefore mainly in industrialized nations in the premium segment, which is more expensive but with smaller volume percentages. The most significant premium markets are the United States and Western Europe, although countries such as Russia, China and Korea are also important. The premium markets may account for only a small share of volume, but the premium segment is still notable due to the sheer size of the markets.

V&S sells traditional local spirits on the Northern European market, which is a rather mature market. The total sales volume for spirits in the Nordic region is estimated at 11.0 million 9-litre cases (excluding legal and illegal private imports). V&S is the leading operator in the region.

V&S is also a leader on the wine market in the Nordic region. This market has increased in recent decades. The total sales volume for wines in the Nordic region is estimated at 51.2 million 9-litre cases (excluding legal and illegal private imports).

The sub-markets are described in more detail in the business area sections.

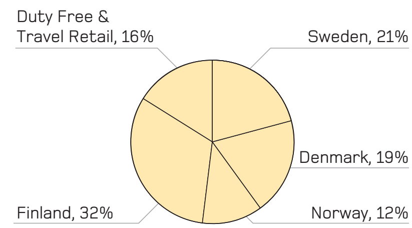
COMPETITORS

V&S products generally compete with all alcoholic beverages. On the global market, international companies with premium spirits are V&S's main competitors. These include Diageo, Pernod Ricard and Bacardi-Martini.

In Northern Europe, in addition to the international corporations, competitors include Altia, Arcus, Sobieski and CEDC. There are also many minor players on the Nordic wine market.

THE NORDIC SPIRITS MARKET

% of volume 2006

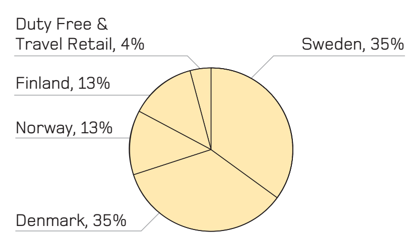


Total registered sales of spirits in 2006 amounted to approximately 11.0 million 9-litre cases.

Sources: National statistics, industry statistics and estimates by V&S.

WINE MARKET IN THE NORDIC REGION

% of volume 2006



Total registered sales of wine and fortified wine in 2006 amounted to approximately 51.2 million 9-litre cases.

Sources: National statistics, industry statistics and estimates by V&S.

MAJOR INTERNATIONAL SPIRITS COMPANIES

Spirits sales 2005, million 9-litre cases

Diageo	90
Pernod Ricard	74
Bacardi-Martini	34
Beam Global	27
Brown Forman	18
V&S Group	15
Campari	12
Belvedere	11
Eckes	8
William Grant's	8

Volumes in 2005 distributed as per ownership structure at end of 2006.

Source: International Wine & Spirits Record (IWSR).

LARGEST PRODUCERS REGARDLESS OF MARKET

Spirits sales 2005, million 9-litre cases

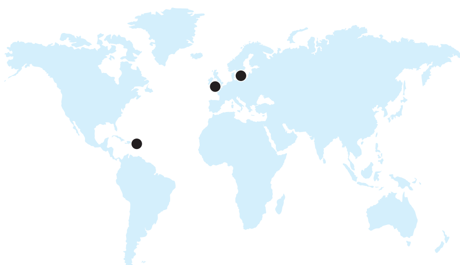
Diageo	90
Hite	77
Pernod Ricard	74
UB	48
Bacardi-Martini	34
Beam Global	27
Muller de Bebidas	24
San Miguel	23
WuLiangYe	19
Brown Forman	18

Volumes in 2005 distributed as per ownership structure at end of 2006.

Source: International Wine & Spirit Record (IWSR).

Growth on prioritized markets

MARKETS



• Production

KEY RATIOS*

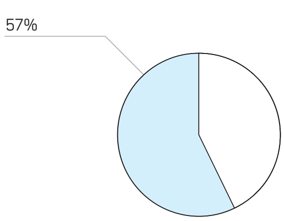
	2006	2005	2004
Net sales, SEK mn	5,882	5,402	4,979
Operating profit, SEK mn	1,914	1,757	1,553
Operating margin, %	32.5	32.5	31.2
Sales, million 9-litre cases	11.2	9.9	9.3
Number of employees	513	460	444

BRANDS

ABSOLUT VODKA, Cruzan Rum, Frïs Vodka, Level Vodka, Plymouth Gin.

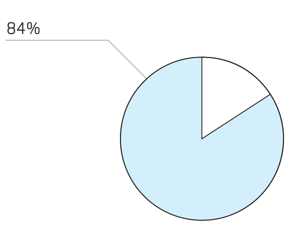
NET SALES*

Compared to Group total



OPERATING PROFIT*

Compared to Group total



* Including internal sales.

2006 was a strong year. Both sales and operating profit rose by 9 per cent. V&S Absolut Spirits is continuing to develop ABSOLUT VODKA and build a broader product portfolio in the premium segment. The acquisition of Cruzan Rum has strengthened the product portfolio strategically and rum is expected to experience sound growth in the future.

V&S Absolut Spirits' operations include the production, marketing and distribution of global premium spirits brands. ABSOLUT VODKA, the third largest international premium spirits brand in the world, is the biggest product for the business area and for the Group. The product portfolio also includes Level Vodka, Cruzan Rum, Plymouth Gin and Frïs Vodka.

V&S Absolut Spirits markets, sells and distributes spirits brands via strategic and part-owned business partners. On the American market, V&S Absolut Spirits products are distributed by Future Brands, of which V&S owns 49 per cent. On most other major markets Maxxium, of which V&S owns 25 per cent, distributes a selection of V&S products.

STRATEGY

- To create growth by growing organically, and by acquiring and developing new brands.
- To fund further growth through cost control and higher margins.
- To become a global leader by developing an organization fit for the purpose and working proactively with responsibility issues.

MARKET

The United States is the single most important spirits market in the world. The largest spirits segment in the United States, vodka, grew by 4 per cent in 2005 to 46 million 9-litre cases. Rum, the second largest segment, increased by 5 per cent to 22 million 9-litre cases. The premium segment is growing on all of V&S's prioritized markets.

Market position and development

ABSOLUT VODKA is sold on approximately 125 markets. It is the world's third largest international premium spirits brand. The most important market is the United States which accounts for almost half the volume. ABSOLUT VODKA is the largest imported spirits brand and the fourth largest spirits brand overall in the United States, with just over 10 per cent of the American vodka market.

V&S Absolut Spirits' other brands are primarily brands with a good growth potential, today representing a minor share of the business area's total volume. They are mainly sold on the American market as well as other selected markets.

In addition to the United States, V&S Absolut Spirits focuses on 13 other markets with the best anticipated potential and profitability. The prioritized markets are Duty Free & Travel Retail, Canada, Brazil, Mexico, Spain, Greece, Germany, United Kingdom, Poland, Sweden, Russia, India and China. The three largest markets by sales volume are the United States, Duty Free & Travel Retail and Canada. Russia, India and China are not currently among V&S's biggest markets, but they do represent future potential.

Customers

V&S Absolut Spirits' three largest customers are in the United States, and are the distributors Southern Wine & Spirits, Glazer and NDC.

Trends

The United States is where almost 70 per cent of all premium sales in the world take place, as well as virtually all super

premium sales. Consequently the new trends tend to happen on the American market. The background to the strong growth of the premium segment is the strong US economy, as well as the purchasing power of American consumers which ensures a good market for the luxury segment.

There is a dramatic increase in market investment in the United States both for established and new brands, along with a continued steady stream of new products. New vodkas with new flavours and designs are constantly being launched. Another trend, although still in low volumes, is ultra premium products that are not mass produced.

Extensive consolidation is under way at all levels of the alcoholic beverage market, from suppliers to distributors and retailers. This is leading to fewer yet stronger companies, which entails tougher competition in all stages. V&S is responding to this ever increasing competition partly by developing existing premium brands, and partly by increasing the breadth of its portfolio of premium brands through acquisitions and organic development. V&S Absolut Spirits has also increased its marketing investment in 2006.

Competitors

V&S Absolut Spirits' products mainly compete with other premium spirits. The primary competitors to V&S Absolut Spirits are therefore the world's largest spirits companies that have premium spirits in their portfolio. Diageo has Smirnoff (vodka), Captain Morgan (rum) and Tanqueray (gin) in its range. Pernod Ricard sells products such as Stolichnaya (vodka), Malibu (rum) and Beefeater (gin). Bacardi-Martini has Bacardi (rum), Grey Goose (vodka) and Bombay Sapphire (gin).

THE YEAR 2006

V&S Absolut Spirits has strengthened its American operation with a new management and an expanded organization. The distribution organization Future Brands has also been strengthened considerably. Moreover, marketing of ABSOLUT VODKA has been developed and extended. As a result of increased investments on the US vodka market, the sales volumes for ABSOLUT VODKA have increased.

In 2006, ABSOLUT VODKA has also increased on many markets outside the United States. These markets now account for just over 50 per cent, collectively exceeding the sales volume

ABSOLUT VODKA,
TEN LARGEST MARKETS

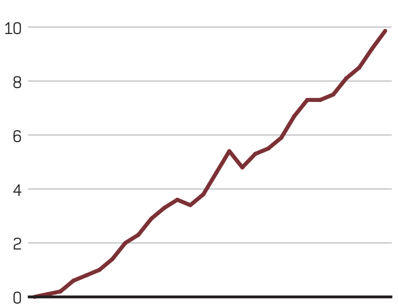
Thousand 9-litre cases

	2006	2005
USA	4,905	4,732
Canada	337	288
Mexico	285	214
Germany	273	245
Spain	250	260
Greece	248	261
United Kingdom	216	176
Israel	213	174
Poland	207	189
Sweden	148	147
Total volume, worldwide	9,862	9,215

Total volume worldwide includes both Duty Paid and Duty Free, all other volumes in Duty Paid only.

ABSOLUT VODKA VOLUMES 1979–2006

Million 9-litre cases



on the American market. This growth can be explained by market investments as well as a strengthened organization with a greater focus on prioritized markets. Most of these markets are showing double-digit growth.

V&S Absolut Spirits broke its production record in 2006, with over 100 million bottles of ABSOLUT VODKA being bottled at the Åhus plant in one year.

Two new flavours have been developed during the year for the ABSOLUT VODKA range: ABSOLUT RUBY RED, with a ruby red grapefruit flavour, which was launched in spring 2006, and ABSOLUT PEARS, which was launched in early 2007 in the United States. The flavoured vodka segment has continued to grow primarily in the United States. V&S Absolut Spirits is driving this development and is the leader in this segment.

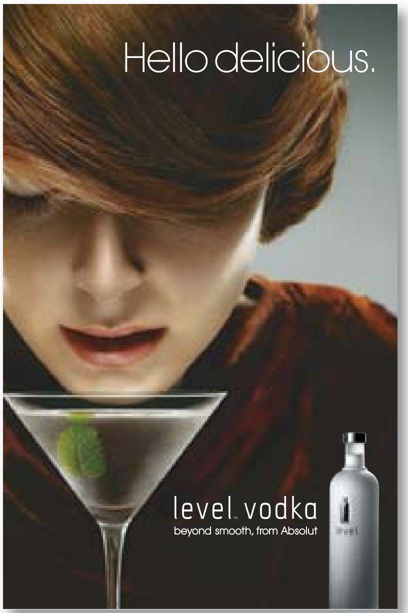
The acquisition of Cruzan International, Inc., with Cruzan Rum, which began in 2005, was completed during the year. Cruzan Rum has been a fully integrated part of V&S Absolut Spirits since 1 July 2006, and sales volume increased by around 5 per cent during the year.

The super premium brand Level Vodka developed strongly and sales rose by 29 per cent. A new advertising campaign for Level Vodka has also been carried out. Level Vodka is the third biggest super premium vodka in the United States.

The sales volume for both Plymouth Gin and Frïs Vodka increased by 20 per cent. Danzka Vodka brand was sold off during the year.

Sales and results

The business area reported good growth and sales increased by 9 per cent to SEK 5,882 (5,402) million. The increase is primarily due to organic growth for ABSOLUT VODKA in most of the prioritized markets, and to the acquisition of Cruzan Rum. Sales volume amounted to 11.2 million 9-litre cases (9.9), an increase of 13 per cent. The business area's operating profit improved by 9 per cent to SEK 1,914 (1,757) million. Operating profit has increased as much as sales even though profitability in the acquired operation is lower and one-off expenses for restructuring the sales organization arose during the period. The improved result can be explained



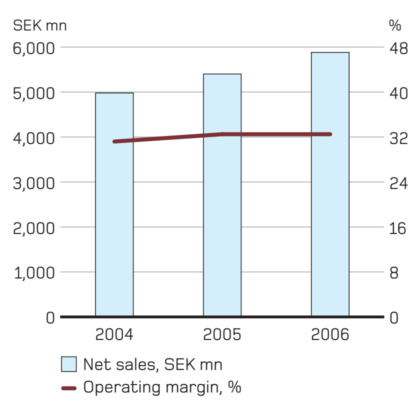
by increased resources in the organization as well as investments in marketing, along with a slight increase during the period in margins for comparable units.

THE FUTURE

V&S Absolut Spirits' entire organization has been strengthened during the year, which means the operation is well-equipped for continued growth. The American market is expected to grow, and the aim is for the business area to grow more than the market. Continued growth is also predicted for other prioritized markets around the world. As Cruzan Rum is now integrated with V&S Absolut Spirits' organization, the goal is continuous growth for Cruzan over the coming year both in the United States and on other selected markets. This will primarily be achieved by utilizing the Group's global strength in distribution and extensive market know-how.

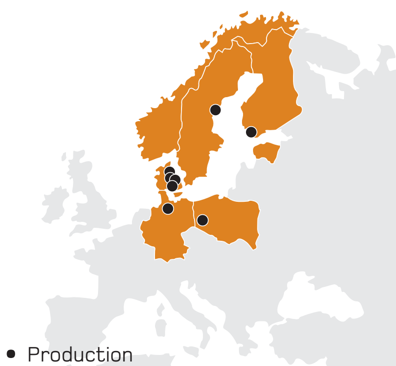
V&S Absolut Spirits is building a further production unit in Åhus which will come into operation in 2007. The new plant will boost flexibility and capacity to meet increased demand.

NET SALES AND OPERATING MARGIN



Focus increases profitability

MARKETS



KEY RATIOS*

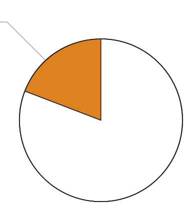
	2006	2005	2004
Net sales, SEK mn	1,948	2,033	1,989
Operating profit, SEK mn	284	264	230
Operating margin, %	14.6	13.0	11.6
Sales, million 9-litre cases	5.6	5.8	6.1
Number of employees	993	1,118	1,154

BRANDS

Aalborg Akvavit, Explorer, Gammel Dansk, Grönstedts Cognac, O.P. Anderson, Luksusowa, Malteserkreuz, Minttu, Polska Wódka, Pan Tadeusz, Tapio Viina, etc.

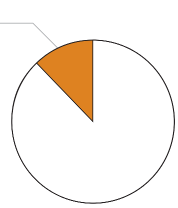
NET SALES*

Compared to Group total



OPERATING PROFIT*

Compared to Group total



* Including internal sales.

V&S Distillers is the leader on the Northern European spirits market. The business area focuses on locally established spirits categories in Northern Europe at which V&S particularly excels: aquavit, bitters and vodka. Profit rose by 8 per cent as a result of an increased focus on profitability.

V&S Distillers' operations include the sale, production and development of traditional spirits on markets in Northern Europe. The main categories are aquavit, bitters and vodka, where V&S enjoys a strong position. In addition V&S is a significant player in several spirits categories on the North European markets, with many well-known brands. The business area encompasses many of the most traditional spirits of Northern Europe.

STRATEGY

V&S Distillers' strategy is to develop attractive brands and its existing operations by:

- Focusing on strong brands with good margins, and on brands with future potential to optimize market investments.
- Strengthening internal processes such as production, distribution and sales, and developing a dynamic organization in order to increase efficiency and reduce costs.
- Being innovative, breaking away from old patterns and establishing new ones.
- Being customer-focused, offering high delivery reliability and developing partnerships with customers.

MARKET

V&S Distillers operates on the Northern European spirits market, which is a very mature market. In Denmark aquavit is the predominant category. In Sweden the market is divided between vodka, spiced aquavit, whisky and other categories such as gin and rum. In Finland vodka is the dominant category and in Poland vodka has over 90 per cent of the market.

The high alcohol excises in the Nordic region have led to extensive legal and illegal cross-border trade. In Sweden, spirits sales at Systembolaget – the Swedish Alcohol Retailing Monopoly – have halved since the beginning of the 1990s. This falling trend did however slow slightly in 2006. The majority of spirits consumed in Sweden are

purchased through other channels within and outside of the country's borders. In Finland excises were decreased in 2004, and border control increased to reduce the cross-border trading. Denmark too has reduced its alcohol excises. The German market has been characterized by high pressure, partly related to the weak German economy. Tendencies towards increased purchasing power have recently been evident.

Market position and development

V&S is the largest player on the spirits markets in Sweden and Denmark with around half the market in each country. In Finland V&S is number two with approximately a quarter of the market. In Poland V&S comes fourth with just under 8 per cent of the vodka market. In Norway V&S's share of the spirits market is 8 per cent. V&S is the leader on the German market in aquavit. In sales via Duty Free & Travel Retail in the Nordic region, V&S products are market leaders. Sales in 2006 increased in Finland, Denmark and Poland, but fell in Sweden and Germany.

In the aquavit category V&S is the leader in Denmark with Aalborg Akvavit, which also has a strong position in the rest of the Nordic region. V&S is also the leader on the Swedish market with products such as O.P. Anderson.

In the vodka category, V&S has a leading position in Sweden. Explorer is the market leader in Sweden, and ABSOLUT VODKA is the leader in the premium segment. The business area's other vodkas have a traditional of position in Sweden. In Finland V&S is second largest in vodka and in Poland, the world's fourth largest vodka market, V&S is in fourth place. V&S's strongest brand in Poland is Luksusowa.

In the bitters category V&S has an exceptional position in Denmark with Gammel Dansk.

Sales for the aquavit, bitters and other local classic categories decreased in 2006, while vodka sales increased.

Customers

V&S Distillers' main customers are the national alcohol retailing monopolies: Systembolaget in Sweden, Vinmonopolet in Norway and Alko in Finland.

Menigo Foodservice, Servera and Carlsberg are wholesalers that sell to restaurants and bars in Sweden. In Denmark supermarket chains Coop, Supergross, Edeka and Netto are the biggest customers. In Poland V&S sells directly to the supermarket chains, and to major wholesalers such as CEDC. Sales in Germany take place through the part-owned distribution organization, Maxxium.

Trends

A clear trend in the spirits market is that the premium segment is increasing while other segments have stagnated or are decreasing. Alongside the excise differences and demand development, industry consolidation is also taking place. V&S was the first major spirits company to make the move towards a pan-Nordic presence. The company is working continuously to strengthen its position in the altered market circumstances. V&S is a step ahead of its main Nordic competitors, although those competitors have recently increased their presence in neighbouring countries through acquisitions and establishments. In Poland in particular it is noticeable that fewer players account for a larger proportion of the total offering.

Competitors

V&S Distillers primarily has local competitors. In Finland state-owned Altia is a competitor, and in Denmark competition comes from several small players and private brands in retail. In both Germany and Norway, German company Berentzen and Norwegian Arcus are competitors. In Poland the main rivals are Sobieski and Bialystok.

THE YEAR 2006

During 2006, V&S Distillers has continued its integration work from a

country-based to a function-based organization. Similarly, work on streamlining and cost reduction has continued.

The business area has raised profitability by prioritizing the strongest brands. Consequently, two brands have been sold off and there are fewer products in the portfolio.

The closure of the plant in Dalby, Denmark was finalized during the year, and V&S is planning to close the plant in Sundsvall, Sweden in 2008. The reason is that the facility has had low capacity utilization for several years. The closure is expected to save SEK 35 million a year.

Innovation work has resulted in new launches of O.P. Anderson and Grönstedts Cognac. In Denmark, Aalborg Frisk and the fruit spirit Emma Brøndum were introduced during the year. In co-operation with restaurants, efforts to develop new concepts in line with Scandinavian cuisine have continued.

Renat Vodka was voted World's Best Vodka at the IWSC International Wine and Spirits Competition for the second consecutive year.

Sales and results

Sales income for the year totalled SEK 1,948 (2,033) million, a decrease of 4 per cent. The decline in sales is due to the divestment of local Czech brands, lower sales primarily in Sweden and Germany, and the discontinuation of certain sales to countries outside the market area. Operating profit increased to SEK 284 (264) million, an improvement of 8 per cent. The improvement is a result of the focus on products with higher margins, a focus on costs and the implementation of streamlining measures in the operation.

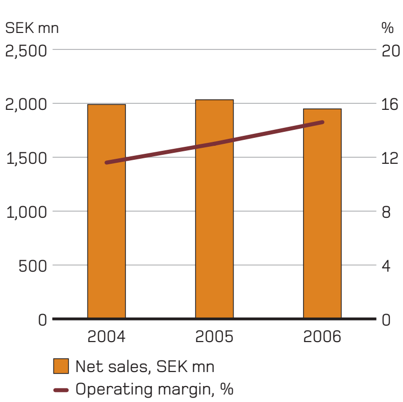
THE FUTURE

V&S Distillers is continuing to streamline its operation and develop its product portfolio.

Innovative efforts will enable V&S Distillers to strengthen the position of V&S products as important elements in the attractive Scandinavian cuisine in 2007.

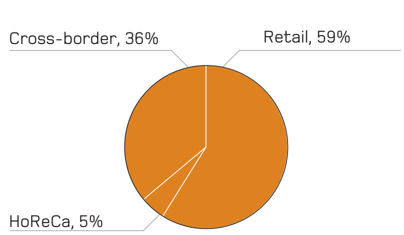
The newly developed Malteser Bitter was launched on the German market in early 2007. The aim is that innovation and streamlining in the operation should lead to increased growth and stronger profitability.

NET SALES AND OPERATING MARGIN



SPIRITS CONSUMPTION BY PURCHASE CHANNEL

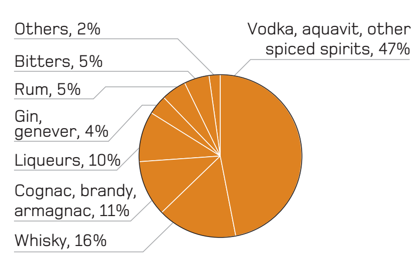
% of volume 2006 in Sweden, Finland and Norway



Sources: National statistics and estimates by V&S.

SPIRITS CONSUMPTION BY CATEGORY

% of volume 2006* in Sweden, Finland, Norway and Denmark



* Forecast
Source: International Wine & Spirit Record (IWSR).

Success through efficient organization

V&S Wine is the leading supplier of wines on the Northern European market. Operating profit increased from SEK 72 to 112 million through greater cost control and streamlining. In December, V&S and Foster's Wine Estates signed a strategic business agreement for the Nordic wine market.

V&S Wine's portfolio includes table and quality wines, fruit-based wines, sparkling wines, fortified wines and special products such as mulled wine. V&S sells wines through agencies from internationally well-known producers in a close partnership. Bulk-imported wines are bottled and marketed as V&S's brands. Sales volumes are distributed evenly between V&S brands and international partners' brands.

With its in-depth knowledge of the Northern European wine market and its consumers, V&S Wine offers customers a product portfolio adapted to the market.

Some of the strong brands from V&S partners are Gato Negro, Penfolds, Raimat, Codorníu, Kumkani and Gallo. V&S Wine's principal brands are Blossa, California White, Chill Out, Opal Springs, Santa Christina and Chymos.

V&S Wine will create stronger results through competitive products and successful brand development.

By being the best at market cultivation, distribution and logistics, V&S will be the preferred choice for customers, consumers and partners. For V&S Wine, an efficient product flow and a competitive product offering are key success factors.

Because V&S Wine largely acts as a distributor of producer brands, the business area has lower operating margins than other parts of V&S Group. At the same time though, the wine business ties up less capital, which means a good return on capital employed.

STRATEGY

Continued growth will be achieved by:

- Developing co-operation with prioritized partners.
- Innovative thinking in all everyday work.
- Effectively cultivating each market.
- Strengthening existing brands and building new brands for the entire Nordic market.

MARKETS

KEY RATIOS*

	2006	2005	2004
Net sales, SEK mn	2,159	2,212	2,268
Operating profit, SEK mn	112	72	49
Operating margin, %	5.2	3.3	2.2
Sales, million 9-litre cases	9.5	9.7	10.0
Number of employees	430	521	611

PARTNER BRANDS

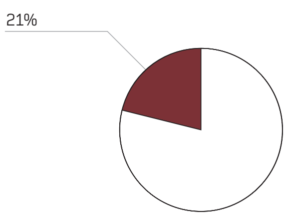
Codorníu, Gallo, Gato Negro, Kumkani, Penfolds Raimat, etc.

V&S BRANDS

Blossa, California White, Chill Out, Chymos, Opal Springs, Santa Christina, etc.

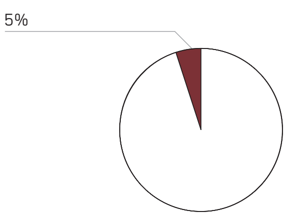
NET SALES*

Compared to Group total



OPERATING PROFIT*

Compared to Group total



* Including internal sales.

Higher profitability is engendered by greater efficiency. This will be achieved by:

- Streamlining the internal product flow and the product flow from supplier to customer.
- Focusing on profitability throughout the organization.
- Achieving synergies with total solutions for the entire Nordic market whenever relevant.

The aim is to strive for more pan-Nordic brands in order to benefit from economies of scale in the product flow, in brand-building and in market cultivation.

MARKET

V&S is the largest operator in the North European wine market, with operations in Sweden, Denmark, Finland, Norway, Estonia and sales to Duty Free & Travel Retail.

Wine consumption in Northern Europe has been increasing for a few decades, particularly in Sweden, Finland and Norway. In Denmark wine consumption has been at a stable but far higher level per capita.

Market position and development

In 2006 the market area as a whole showed an increase[1]. V&S Wine is the market leader in the Nordic region. On the Swedish and Danish markets, and in Duty Free & Travel Retail, V&S is the market leader and the second largest in Finland. V&S has held a stable market position in 2006.

Differences in national excise systems give rise to cross-border trade for alcohol products. As Germany levies no alcohol excise on wine, primarily wines in the lower price categories are far cheaper in Germany than in the Nordic region. This generates private imports of cheaper wines from Germany to the Nordic countries. There is also extensive cross-border trade between the Nordic countries themselves.

Sales through Duty Free & Travel Retail play an important role, particularly where the rules for the EU's internal market apply, as large quantities can be taken across the borders.

Customers

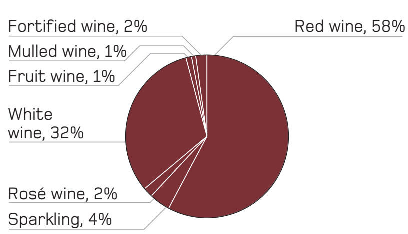
V&S Wine's sales are primarily to the retail and restaurant trades, but also to Duty Free & Travel Retail within the Nordic/Baltic area. In Sweden, Finland and Norway, alcohol retail takes place via national monopolies. In Denmark and Estonia, alcohol is retailed in supermarkets.

Sales to hotels and restaurants mainly take place via wholesalers in the individual country. The hotel, restaurant and catering sector accounts for an estimated one-tenth of all registered sales.

1 The extensive cross-border trade remains, which means there is some uncertainty in the official market statistics.

WINE MARKET BY CATEGORY

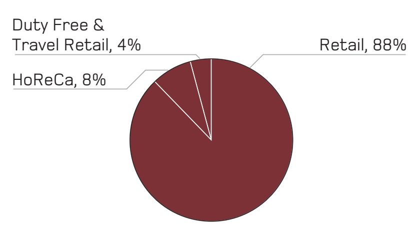
% of volume 2006 in Sweden, Finland, Norway and Denmark



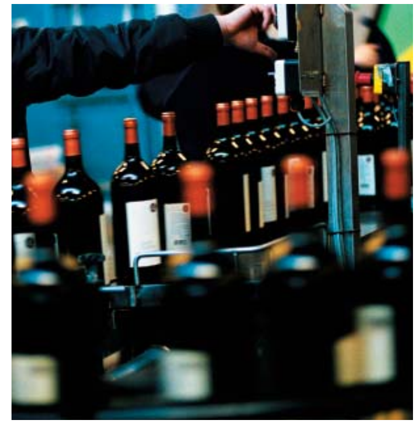
Sources: Systembolaget, Alko, Vinmonopolet, VSOD.

WINE MARKET BY PURCHASE CHANNEL

% of volume 2006 in Sweden, Finland, Norway and Denmark



Sources: National statistics, industry statistics and estimates by V&S.



Trends

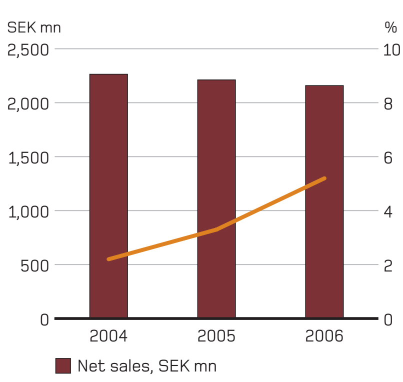
The trend for a higher proportion of bag-in-box wine is continuing. In Sweden and Norway, sales of bag-in-box wine exceed bottle sales. This is due to increased consumer demand.

Wine advertising is now permitted on all markets except for Norway, although the rules differ slightly from one country to the next. This has to some extent further strengthened the existing clear trend towards brands becoming increasingly important even with wines.

Competitors

The Nordic market is characterized by a high number of players and strong competition. V&S's biggest competitor on the Northern European wine market is Finland's Altia. In Denmark V&S partly competes with large supermarket chains which sell their own imported wines alongside the products of various importers.

NET SALES AND OPERATING MARGIN



THE YEAR 2006

In December, V&S and Foster's Wine Estates signed an important business agreement for the entire Nordic market. The agreement strengthens V&S's offering to wine customers in the Nordic region. The agreement encompasses Foster's entire portfolio of wine brands, which includes Lindemans, Penfolds, Rosemount, Wolf Blass and Beringer. In addition, V&S will be responsible for tapping bag-in-box wines for the European market.

V&S has entered into a partnership during the year with The Company of Wine People, a South African wine producer whose brands include Kumkani.

One of the most important launches during the year was Aussie, a series of high-quality Australian wines in a new type of pack: a 1-litre Tetra pack with a screw cap.

V&S Wines' strategy has been further developed during the year. The product range has been simplified by reducing the number of own brands and suppliers. Similarly, the focus on reducing costs has continued.

Sales and results

Sales income fell by 2 per cent to SEK 2,159 (2,212) million. Sales volumes amounted to 9.5 million 9-litre cases (9.7). The decline is attributable to the divestment of Østjysk Vinforsyning and the loss of a wine agency in Sweden last year, as well as reduced subcontracted bottling in Denmark and lower agency sales volumes of brewery products which took place in Estonia up to the end of 2006. Sales increased in Finland and Norway.

The business area's operating profit improved to SEK 112 (72) million, and the operating margin also rose considerably. Profit has been strengthened, partly through cost control and streamlining, and partly through a focus on products with higher margins.

THE FUTURE

Work under the business agreement entered into with Foster's in December 2006 will be initiated and developed in 2007. The co-operation will strengthen V&S's position in the Nordic region. Growth and robust profitability will be achieved by continuing to build own brands and developing partnerships for the entire Nordic market.

2007 will also be characterized by continued streamlining by further integrating the Nordic markets, with the aim of increasing profitability.

Broad approach to sustainable development

V&S is committed to being the most responsible company in the alcoholic beverage industry. Responsibility issues are important in strengthening the company, the brands and profitability in the long term and are therefore integral parts of the company's vision and core values. Significant training initiatives were carried out in 2006 with the aim of further increasing knowledge of responsibility issues among all employees.

V&S's code of business ethics and conduct provides the framework for the company's activities in the marketplace, in society, at the workplace and for the environment.

An internal audit was carried out in the course of the year into the code's applicability and compliance. The audit resulted in a number of proposals for improvement.

In order to further improve V&S's performance regarding responsibility and sustainability, the following measures have been initiated:

- Clarification of objectives with associated strategies.
- Clarification of key performance indicators to facilitate follow-up.
- Increased integration into business processes.
- Improved systematic approach to responsibility issues within the entire Group.

This report contains the essential information and facts needed by stakeholders in order to obtain an idea of how V&S has performed in important areas. Further information about V&S's responsibility performance is available at vsgroup.com.

HOW V&S REPORTS ITS RESPONSIBILITY PERFORMANCE

The Group's performance on responsibility is reported in accordance with the guidelines of the Global Reporting Initiative (GRI). Further details of the responsibility report's compliance with GRI can be found at vsgroup.com.

The report for the 2006 calendar year is based on the areas over which V&S has full control or significant influence, and where the company's operation also has a large impact on society, the economy or the environment.

The report is also based on the areas of interest to V&S's stakeholders: customers, employees, owners, business partners, authorities and non-governmental organizations. The regular employee survey is to be regarded as an in-depth stakeholder dialogue with employees. Through V&S's participation in various industry initiatives, the Group has a good understanding of what various interest groups consider to be important responsibility issues.

V&S's code of business ethics and conduct shows how the company supports the UN Global Compact and its 10 principles for good corporate citizenship. This report only deals with principles 6 to 10 as V&S's operation does not ordinarily come into contact with forced labour, child labour or other violations of human rights (principles 1 to 5). V&S does however stipulate that its suppliers fulfil international conventions and agreements in these areas.

The organizational scope generally follows the same principles as the financial report. Environmental data is mainly reported based on information from the production plants, as well as the previous report (March 2006). As of 2004, carbon dioxide emissions are reported using the principles of the greenhouse gas protocol developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) (ghgprotocol.org). Emission values from the Swedish Network for Transport and Environment have been used for transport-related environmental data. The transport calculations encompass the most important flows of ingredients, raw materials and products.

DATA QUALITY AND RELIABILITY

The information in this report has been assured through internal control by V&S's function managers alongside external experts. In order to further ensure the reliability of the report, Öhrlings PricewaterhouseCoopers AB has examined the performance presentations.

SUMMARY OF V&S'S RESPONSIBILITY PERFORMANCE

	MARKETPLACE	WORKPLACE	SOCIETY	ENVIRONMENT
OBJECTIVES	V&S's perfomance in the market shall be characterized by respect and responsibility, contributing to customers' and consumers' confidence in V&S and its brands.	V&S shall be an attractive employer with skilled employees.	V&S shall be characterized by a genuine social commitment, whereby the company promotes responsible drinking and otherwise contributes to sustainable development in partnership with different stakeholders.	V&S's environmental performance shall focus on minimizing the impact on climate change, optimizing the use of natural resources and maximizing the percentage of eco-friendly agricultural products.
TARGETS	• No infringement of marketing codes. • All marketing and sales employees shall undergo training in industry-specific marketing codes by 2007. • All business partners in marketing shall be informed about V&S's guidelines on responsible marketing.	• Commitment index shall be among the top 10% in Europe by 2010. • Leadership index shall exceed the European average. • All employees shall undergo training in V&S's vision, core values and business ethics by 2007. • V&S shall have an even gender distribution among senior employees. • V&S shall be among the 30 most attractive employers.	• All important suppliers shall be evaluated. • Strategy for managing V&S's social commitment shall be implemented.	Targets for 2010: • Reduce CO_2 emissions per litre of product by 25%, compared with 2006. • Increase eco-friendly products to 50% of total sales. • Increase energy efficiency to 3.6 MJ per litre of product. • Increase water efficiency to 11.0 litres per litre of product. • Increase recycling to 95%. • Percentage of eco-friendly packaging material shall amount to 50%.
STRATEGY	• Visible responsibility messages in market communication. • Monitoring and control of marketing activities.	• Profiling activities towards potential employees. • Continuous development of employees and managers. • Promote tolerance and respect. • Systematic approach to health and safety issues.	• Open communication with stakeholders. • Careful selection of business partners and community projects.	• Increased energy efficiency. • Efficient logistical solutions. • Supplier collaborations.
THE YEAR 2006	• Established marketing councils to monitor and control marketing activities. • Trained 26% of marketing and sales employees in EFRD's Common Standards. • Informed 90% of hired advertising agencies of V&S's code of business ethics and conduct. • V&S has had 7 ads called into question as infringements of marketing codes.	• Trained all newly recruited managers in situational leadership. • Trained 11% of employees about V&S's vision, core values and business ethics. • Conducted employee survey. Commitment index totalled 60 (64). Leadership index totalled 65 (66). • 21% of management group members were women, 27% were non-Swedish. • 52% (50) of employees had no sick leave. • 59 workplace accidents reported.	• Developed a strategy for managing V&S's social commitment. • Contributed to "Teach about alcohol", educational materials for school pupils in Sweden. • Evaluated 60% (49) of V&S's most important suppliers of food products, raw materials and logistical services.	• Reduced CO_2 emissions per litre of product by 6%. • Increased percentage of eco-friendly products to 45% (43) of total sales. • Increased energy efficiency to 4.02 MJ (4.13) per litre of product. • Increased water efficiency to 13.22 litres (16.14) per litre of product. • Increased recycling to 92% (91). • Increased percentage of eco-friendly packaging material to 43% (36).
THE FUTURE	• Develop and improve follow-up and control of marketing activities. • Develop a V&S specific marketing code and checklists. • Implement a complaint management manual.	• Develop and implement action plans based on the employee survey. • Develop a manual for systematic approach to health and safety issues. • Implement HR system.	• Intensify efforts for increased social commitment. • Further develop the procedures for supplier evaluation.	• Continued focus on energy and resource efficiency, as well as eco-friendly agricultural products.

Collaboration on responsible marketing

V&S strives to promote responsible drinking where adults drink alcohol in moderation for enjoyment and pleasure. Marketing shall be directed at adult consumers and shall avoid channels and forums that target young people. During 2006, employees and subcontractors have been trained to increase awareness and knowledge of industry-specific marketing codes.

It is a challenge for the alcoholic beverage industry to advocate responsible drinking in a credible way while striving to increase sales. This challenge motivates V&S to become even better at communicating with the market. V&S views responsible marketing as a factor in further developing market communication rather than limiting it.

OBJECTIVE

Performance in the market shall be characterized by respect and responsibility, contributing to customers' and consumers' confidence in V&S and its brands.

STRATEGY

- Visible responsibility messages in market communication. Campaigns shall be developed based on the message of responsible drinking.
- The business units on each market shall establish systems for fulfilling the Group's overall guidelines on marketing.
- Monitoring and control of marketing activities through marketing councils to prevent infringements against V&S's code of conduct and external marketing codes.

CODES AND GUIDELINES

V&S's code of conduct contains general guidelines on responsible marketing. In the United States there is also the Distilled Spirits Council of the United States (Discus) code for responsible marketing (see discus.org). In the rest of the world, V&S shall comply with the EFRD's Common Standards. EFRD, The European Forum for Responsible Drinking, is an organization of major alcoholic beverage companies in Europe (see efrd.org).

The Discus code and EFRD's Common Standards are all in line with V&S's code of conduct but are more detailed. In addition there are local industry codes.

Dialogue and collaboration

V&S's participation in the EFRD and the work of similar national organizations gives the company an insight into the requirements and expectations of the alcohol industry from many different international stakeholders. EFRD also has industry-wide training material for responsible marketing. Moreover, regular surveys are also carried out into how marketing is carried out on most European markets.

V&S has limited direct contact with the end consumer and focuses on increasing knowledge and awareness of codes of conduct among business partners such as:

- Advertising agencies contracted by the company.
- Distributors in which V&S is a part owner or otherwise has significant influence.

Product safety

Several of V&S's production facilities are certified in accordance with the International Food Standard, IFS (see food-care.info). The IFS includes requirements of quality assurance, risk assessment, internal audit programmes and the analysis of non-compliance.

Traceability of the products in the production and distribution processes are requirements of both the IFS and the EU's General Product Safety Directive. As part of an overall quality assurance system, effective traceability procedures have been created during the year.

ACTIVITIES AND RESULTS 2006

During 2006, 26 per cent of all relevant employees were trained in industry-specific marketing codes.

To improve and co-ordinate the way V&S's marketing is monitored, a marketing council has been formed for each business area.

Criticism of marketing

National organizations for responsible marketing in 13 countries assessed 4,799 alcohol advertisements which were published in 2005. The advertisements were assessed based on national codes and the EFRD's Common Standards. Compliance with the EFRD's Common Standards and national codes was 96 per cent. 192 advertisements were called into question regarding

infringements, of which four were advertisements from V&S:

- ABSOLUT FEMININITY, in which alcohol was seen as claiming to reinforce femininity.
- ABSOLUT COLLECTOR, viewed as possibly alluding to sexual success.
- ABSOLUT OASIS, judged to equate spirits with water as a fundamental need, and therefore an infringement against the rule of not encouraging irresponsible drinking.
- The message regarding responsible drinking was judged to be barely legible in two advertisements.

V&S has judged that the criticism against ABSOLUT COLLECTOR may be justified and that the message regarding responsible consumption should be highlighted more clearly. The other advertisements were not considered to contravene prevailing codes in their general approach and choice of media.

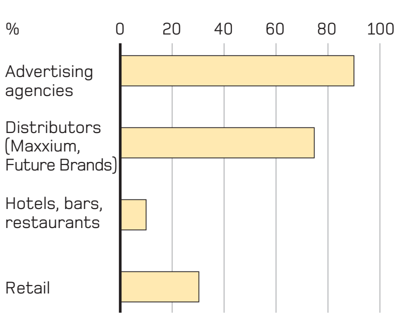
The advertisement that caused the most negative attention during the year, and which was published after the above assessment was made, was ABSOLUT HERBERTSTRASSE. The advertisement was considered to allude to prostitution, whereupon V&S withdrew the advertisement.

V&S advertisements for two wines, Gato Negro and Codorníu, were judged to contravene Swedish alcohol legislation by the Swedish Market Court.

V&S envisions zero infringements of marketing codes and all deviations must be taken very seriously. The infringements above indicate that analysis of advertising campaigns must improve.

V&S shall conduct marketing with good business ethics. A central pillar of this is not to unduly influence decision-makers. Court cases have been in progress in Sweden against suppliers to and store managers of Systembolaget, the Swedish Alcohol Retailing Monopoly, regarding suspected bribery. Legal proceedings have been brought against nine current and former V&S employees.

RESPONSIBLE MARKETING AND BUSINESS PARTNERS



In a survey, 9 out of 10 of the Group's marketing managers said they had gone through the V&S code of conduct with their advertising agencies and gave assurances that they would adhere to V&S's requirements when new campaigns are planned and carried out. V&S is unable to exert the same control and influence over other business partners, and much remains to be done.

Since the suspicions were raised, V&S has carried out internal investigations and has clarified and intensified instructions and follow-up functions. Due to training in the code of conduct, V&S has achieved a high level of awareness about the rules that apply with regard to undue influence.

THE FUTURE

The monitoring and control of marketing activities shall be further developed and improved. A systematic approach to the production of marketing campaigns must be established.

All relevant employees shall be trained in industry-specific market codes. By taking a more proactive approach and by creating more own initiatives, V&S shall promote moderate consumption and counteract alcohol abuse.

Developing skills and the working environment

V&S shall be an attractive employer which systematically works with health and safety and actively profiles itself to potential employees. The result of this year's employee survey showed that both the commitment index and the leadership index are higher than average for Northern European companies. The proportion of appraisal sessions carried out has increased by 14 percentage points.

OBJECTIVE

V&S shall be an attractive employer with skilled employees.

STRATEGY

- Profiling activities towards potential employees.
- Continuous development of employees and managers.
- Promote tolerance and respect.
- Systematic approach to health and safety issues.

GUIDELINES

V&S has guidelines and documented processes for carrying out recruitment, development and unit closures. The annual employee appraisal session is the main tool allowing V&S to contribute to the development of the workplace and the individual.

In connection with reorganizations, V&S provides various forms of support for people who are forced to leave the company. V&S carries out regular employee surveys in collaboration with TNS Gallup. Part of the aim is to measure employees' motivation and commitment to the operation.

Health and safety

V&S seeks to promote the health and safety of its employees in a number of ways. Measures, follow-up and preventative action take place at local level and are adapted to the nature of the work. At units where accidents occur in the workplace, the causes are examined and corrective measures are taken.

Diversity

V&S is of the opinion that diversity in the workplace leads to a more creative working environment, increases productivity and improves job satisfaction. It is also important that the company's employees reflect V&S's customers and markets.

Diversity issues will be given greater emphasis through the follow-up by management of key perfomance indicators linked to under-representation in gender and nationality, as well as degree of internal recruitment.

ACTIVITIES AND RESULTS 2006

In November, an interactive internal training programme was introduced covering the V&S vision and core values connected to the code of business ethics and conduct. During the year 11 per cent of V&S's employees were trained. The target is that all employees complete the training programme by the end of 2007.

V&S's training in situational leadership for managers is continuing. The initiative, which began in 2004, encompasses all managers with employees responsibility as well as selected key employees. Approximately 350 people have completed the training.

V&S has carried out various activities to encourage employees to improve their health, such as subsidized exercise and seminars on diet and stress prevention.

Employee survey

81 (84) per cent of V&S Group employees responded to the employee survey in 2006.

In the survey, too high a proportion of employees said that they did not receive any feedback from the previous survey, which probably had a negative impact on the response rate. Consequently, the company has decided that the results will be presented to all employees and action plans prepared by February 2007 at the latest. Action plans will regularly be followed up both locally and in the Group management.

On a positive note, the number of appraisals has increased by 14 percentage points to 86 per cent.

V&S Absolut Spirits in the United States is running the programme "Work Life Matters", giving employees access to advice on everything from physical health to legal issues.

V&S Wine in Denmark has the "Healthy on the Job" programme which focuses on healthy leadership, including a healthier diet and greater job satisfaction.

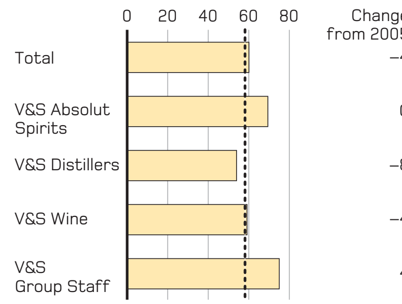
V&S Distillers in Finland, has taken ergonomic measures in production which have led to less strain and a safer workplace. Noise-reduction measures previously taken in some departments are now being introduced in others.

DIVERSITY IN MANAGEMENT GROUPS 2006

	Men	Women	Swedish	Other nationality
Group Management	8	1	8	1
V&S Absolut Spirits	5	2	5	2
V&S Distillers	4	1	5	0
V&S Wine	9	3	6	6
Total	**26**	**7**	**24**	**9**
Share in percentage	79%	21%	73%	27%
Other empolyees	62%	38%	–	–

Gender and nationality distribution in the management groups are 21 per cent women and 27 per cent non-Swedes.

COMMITMENT INDEX

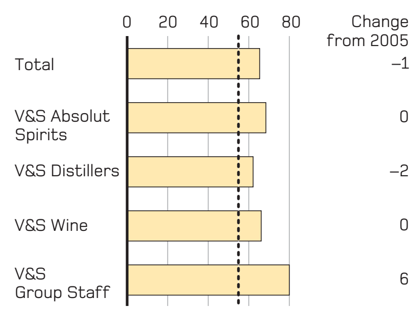


The percentage of highly commited employees has decreased compared with the previous surveys. Organizational changes are the probable main reason for the decline.

Northern European average index: 58

Source: TNS Gallup TRI*M

LEADERSHIP INDEX



Northern European average index: 55

Source: TNS Gallup TRI*M

The commitment index totalled 60 (64) and has fallen slightly, but it is still above average for the Northern European companies that took part in TNS Gallup's surveys. One possible explanation to the decrease is the reorganizations. V&S Distillers is the business area with most employees affected by reorganization. It is also the area with the largest drop in its commitment index.

The percentage of employees satisfied with their immediate manager remains at a high level. The leadership index has changed marginally compared with last year's survey, 65 (66), and is still above average for the Northern European companies that took part in TNS Gallup's surveys.

Six per cent of employees answered yes when asked if they had experienced discrimination at work. V&S has a policy of zero tolerance and will continue to focus on the issue.

Accidents and health

In 2006, 59 employees had accidents in the workplace. Some accidents were due to defects in mechanical or safety equipment, while others were due to a lack of care and attention or to safety regulations not being observed. The percentage of employees with no sick leave amounts to 52 (50) per cent.

Several Group units have begun to work with health profiles for employees. They are based on physical tests and questions about the work situation, home conditions and leadership. The profiles provide an understanding of the well-being in the work groups, as well as how much stress they are experiencing.

THE FUTURE

Introduction of the Group-wide HR system will continue in 2007. This will ensure a structured approach and enable employees and managers to work with their own development.

A manual for a systematic approach to health and safety issues is to be developed.

The aim is to implement the health profile scheme throughout the Group.

In 2007 all leaders will take a short refresher course in situational leadership and employees will be given a brief introduction.

Responsibility at the local and global level

V&S wants to contribute to a sustainable society based on accepted principles of human rights and labour rights. In 2006 V&S has further developed procedures for evaluating both its own and its suppliers' operations.

OBJECTIVE

V&S shall be characterized by a genuine social commitment, whereby the company promotes responsible drinking and otherwise contributes to sustainable development in partnership with different stakeholders.

STRATEGY

- Strive for open, trusting relations with employees and external stakeholders alike. Information shall be fact-based, credible, clear and accessible.
- Choose business partners and community projects with care.

GUIDELINES

V&S's responsibility in the community extends further than just providing jobs, generating profit and paying tax.

Environmental consideration, compliance with the UN Declaration on Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work are important factors in positive social development. V&S's suppliers are systematically evaluated against set criteria to ensure they fulfil V&S's requirements.

An important endeavour to promote responsible drinking begins at V&S's workplaces. Promotion measures include:

- Alcohol ignition interlocks installed in all distribution vehicles at V&S's logistics centres in Sweden.
- Employees training in alcohol issues.
- A guide containing advice on responsible alcohol practice in connection with business trips and corporate entertainment.

ACTIVITIES AND RESULTS 2006

Of the most important suppliers, 60 (49) per cent were evaluated against the Group's criteria.

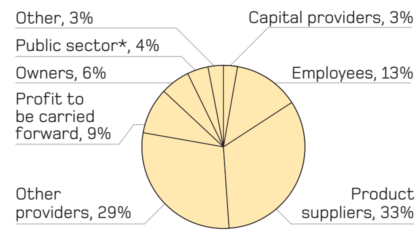
A new strategy was developed during 2006 providing direction for the company's community engagement activities.

In the US Virgin Islands V&S has entered into an agreement with the authorities through Cruzan Rum. The agreement means that Cruzan Rum will forego current tax relief and instead receive increased tax income from the sale of rum. This income is used for global marketing with aim of securing further growth. The growth increases tax income for the US Virgin Islands, improving the state finances and creating scope for investment in schools, healthcare and eldercare.

In Sweden V&S has been involved in the project "Teach about alcohol". The training material for this project is aimed at school pupils and aims to delay young people's alcohol debut. The goal was for 300 schools to have ordered the material in March 2007. In December 2006, 900 schools had already ordered the material (see prataomalkohol.se).

V&S Absolut Spirits has initiated the programme "Recognize the Moment", which aims to inform and educate about responsible drinking and responsible marketing. In 2007 the programme will be launched externally, partly online and through advertising on the American market. The programme will be launched on other markets in 2008.

OPERATING REVENUES BY STAKEHOLDER



The chart shows appropriation of operating revenues for the year as well as profit brought forward and retained in the company.

* Excluded taxes refer to alcohol excises the Group pays and administers in certain countries.

THE FUTURE

- More resources for projects that clearly display V&S's commitment.
- Consumer information about the risks associated with alcohol consumption.
- Further development of supplier evaluation procedures.

Targeting reduced impact on climate change

V&S strives to contribute to environmentally sustainable development. Reducing greenhouse gas emissions has long been a priority. Carbon dioxide emissions per litre of product sold have decreased by 27 per cent in the past two years. V&S's new climate target is a further reduction of 25 per cent between 2006 and 2010.

OBJECTIVE

V&S's environmental performance shall focus on minimizing the impact on climate change, optimizing the use of natural resources and maximizing the percentage of eco-friendly agricultural products.

STRATEGY

V&S shall minimize its impact on climate change primarily by:

- Making production processes more energy efficient.
- Reducing transport by road in favour of sea or rail transport.
- Minimizing fuel consumption and CO_2 emissions from road transport.

V&S shall optimize its use of natural resources by:

- Applying green procurement criteria for packaging and raw materials.
- Minimizing waste and maximizing re-use and recycling.

V&S shall maximize its share of eco-friendly agricultural products by:

- Requiring eco-friendly food ingredients and by co-operating with suppliers.
- Avoiding genetically modified organisms.

GUIDELINES

Environmental management in V&S is based on the environmental policy in the code of conduct, the overall environmental objectives and the afore-mentioned strategies. In addition, each plant has specific environmental targets and activities. The V&S Environmental Management Manual provides a common systematic approach across the Group. Supported by the manual, each unit produces an energy and materials balance. An assessment of environmental impact and risks, along with documentation on legal requirements and stakeholder requirements on environmental activities, is also included.

ACTIVITIES AND RESULTS 2006

None of the production plants have reported deviations from the prevailing legislation or permit.

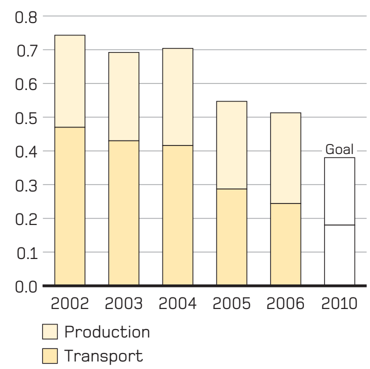
Energy-efficient spirits production

Åhus and Nöbbelöv in Sweden, where ABSOLUT VODKA and Level Vodka are produced, boast one of the world's most energy-efficient distilleries. Thanks to a new distillation line with the latest compressor technology, a very high level of energy recovery has been achieved. Through this technology leap both energy costs and V&S's impact on climate change are reduced. The destillery was certified during the year to the energy management standard SS627750. The aim to further increase efficiency has not diminished, although there is now less potential for improvement. As incentive for further improvement all employees will undergo environmental training and part of the operating staff's pay is now linked to the energy efficiency in the distillery.

In Denmark, two plants have been certified according to the energy management standard DS 2403, which places requirements on a continuous reduction in energy consumption. As long as fossil energy sources are used, a decrease in energy consumption also means lower carbon dioxide emissions. The plant in Aalborg has switched entirely from fuel oil to natural gas. Although natural gas is a fossil fuel, carbon dioxide emissions from the boilers have decreased by approximately 8 per cent.

CARBON DIOXIDE EMISSIONS

At V&S facilities and from transports, kg per litre of product sold



During the year, V&S reduced CO_2 emissions per litre of sold product by 6%.

The impact of transport on climate change has decreased further in 2006. This is partly due to an increased proportion of wine imports from Europe compared to New World wines, and also to continued improvement and streamlining efforts. Above all, an increased share of sea transport and a two per cent decrease in the proportion of road transport have led to decreased emissions. Continued modernization of the vehicle fleet combined with training in Heavy Ecodriving has led to a drop in fuel consumption for road transport.

In 2006, the share of renewable energy dropped to 15 per cent (28) mainly due to the aqcuisition of Cruzan International, Inc., in the US Virgin Islands, which only uses fossil fuels for their energy supply. Alternative energy sources are very limited, which is why energy effiency measures are prioritized.

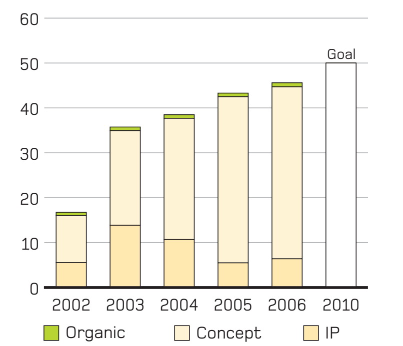
Total carbon dioxide emissions from the Group's production and transport increased by 18 per cent, but as production increased by 23 per cent emissions per litre of product sold decreased by 6 per cent.

KEY PERFORMANCE INDICATORS FOR RESOURCE MANAGEMENT

KPI	Measure	Target 2010	2006	2005	2004
Energy efficiency	Amount of energy (MJ) per litre product sold	3.60	4.02	4.13	4.38
Water efficiency	Water consumption (litres) per litre of product sold	11.00	13.22	16.14	22.99
Degree of recycling	Per centage of recycled material of total volume of waste	95%	92%	91%	(no inf.)
Share of eco-friendly packaging	Percentage of eco-labelled/recycled packaging material of total volume of packaging material	50%	43%	36%	(no inf.)

ECO-FRIENDLY FOOD INGREDIENTS

Percentage of product volume sold made from organic, IP cultivated or concept cultivated ingredients.



Improved resource management
V&S strives to optimize its use of resources, and to choose environmentally sustainable alternatives as far as possible. All plants are determined to continuously reduce packaging, increase the re-use of transport packaging and improve waste separation at source, and to find a market for waste products.

Environmental agricultural products
The foundation of V&S's products is ingredients from agriculture, primarily wheat and molasses for producing spirits and grapes for winemaking.

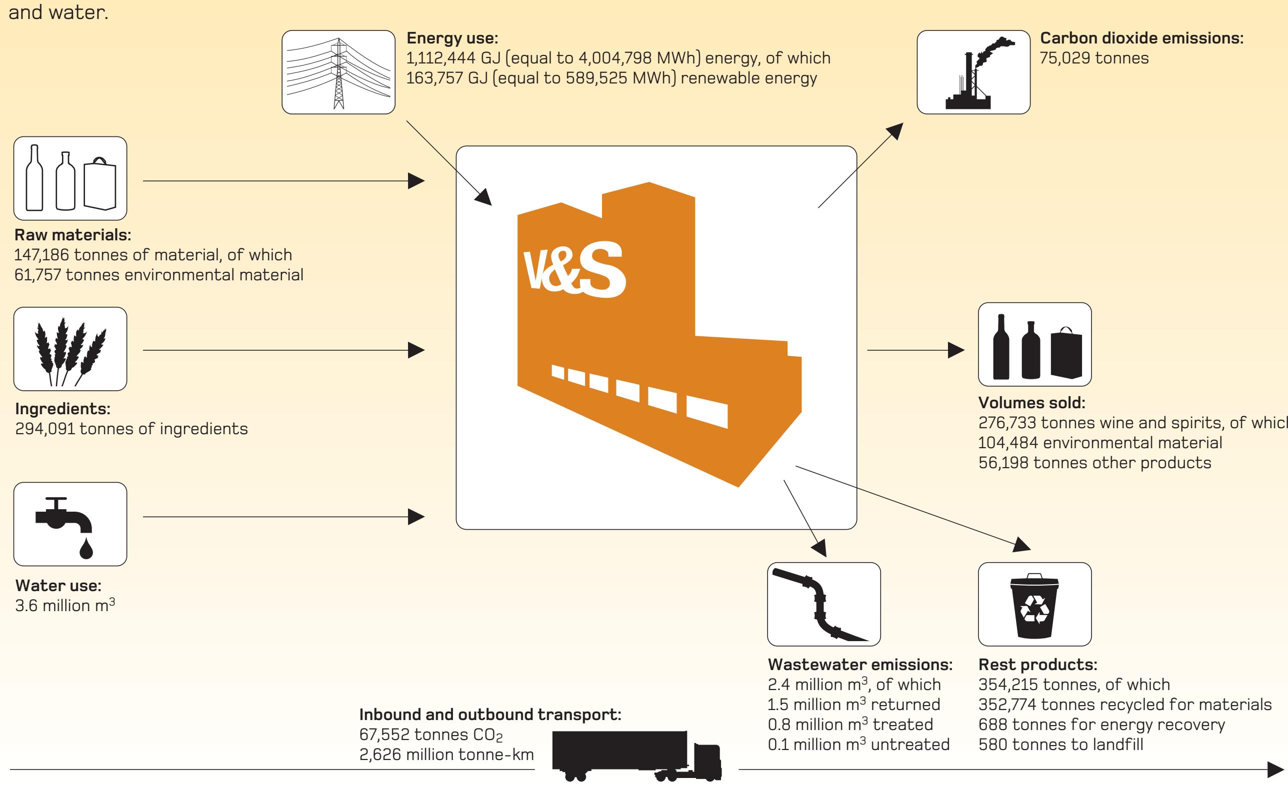
To produce ABSOLUT VODKA, V&S has developed a cultivation concept in close co-operation with the Swedish University of Agricultural Sciences, farmers and suppliers which minimizes nitrogen leaching and reduces the use of chemical pesticides, while also improving product quality.

In terms of sales, the share of eco-friendly wine and spirits products amounts to 45 per cent, with ABSOLUT VODKA accounting for the majority. In addition to ABSOLUT VODKA, V&S produces five aquavits based on organic wheat as well as several eco-friendly wines.

Environmental investments
Costs and investments for improved waste management, energy-saving

V&S'S ENERGY AND MATERIALS BALANCE

V&S's energy and materials balance shows how the Group's combined input of raw materials, ingredients and energy generates output in the form of wine and spirits, as well as waste and emissions to air and water.



investments, environmental training and other environmental measures amounted to just over SEK 12 million during the year.

THE FUTURE

Reducing its impact on climate change is the main objective of V&S's environmental efforts in the years to come. The goal is a 25 per cent decrease in carbon dioxide emissions by 2010 in terms of kilograms of carbon dioxide per litre of product. This will require energy rationalization and a greater proportion of renewable fuel and energy sources. Several plants have charted potential energy rationalization measures during the year, in order to carry out the measures that have the greatest impact in the years to come. V&S is also looking into opportunities for various climate-neutralizing measures.

The environmental authorities in the US Virgin Islands are investigating, alongside V&S, how the problem of emissions of wet stillage can be resolved. Three options are being examined: evaporation/combustion, wet combustion, and anaerobic digestion/ozone treatment. The investigation is expected to be complete in autumn 2007 and the treatment plant will be up and running by 2012 at the latest.

The targets for optimized use of resources have been updated. By 2010 water consumption shall decrease from the current 13 to 11 litres per litre of product sold. Re-use and recycling shall increase from 92 to 95 per cent, which means that only 5 per cent goes to

landfill or incineration. The proportion of environmental packaging materials shall increase from 43 to at least 50 per cent by 2010. The proportion of eco-friendly wine and spirits products shall increase from 45 to 50 per cent by 2010.

Assurance Report

To the readers of the Responsibility section

At the request of the management of V&S Vin & Sprit AB (publ), we have performed a limited review of the information presented in all tables, diagrams and graphs on pages 20–29 in the section "Responsibility" of the Annual Report for 2006. The purpose of our limited review is to express whether we have found any indication that the reporting is not, in all material aspects, prepared in accordance with the criteria developed and stated by the Group. The limited review has been performed in accordance with FAR SRS's draft standard on independent limited reviews of voluntary separate sustainability reports.

The Group's Board of Directors submitted the Annual Report on 20 February 2007. Corporate Responsibility and any reporting thereon is the responsibility of V&S's management. V&S's Corporate Responsibility & Quality Department is responsible for the Group's overall coordination within environment, working environment, quality and sustainable development as well as for the section "Responsibility" in the Annual Report. Our task is to express an opinion on the information presented in the tables, diagrams and graphs on pages 20–29 of the "Responsibility" section of the Annual Report, based on our limited review.

The data and information presented in the tables, diagrams and graphs on pages 20–29 of the "Responsibility" section of the Annual Report have been prepared based on the company's specifically developed and stated principles for calculation and disclosure, which together form the criteria on which our limited review has been based.

The scope of our limited review procedures included the following activities:

- Discussions with management to obtain information on material incidents and activities during the period to which the report refers.
- Review of the principles for calculation and disclosure of the results of operations of the performance indicators.
- Performing an overall review of the Group's systems and routines for the registration, accounting and reporting of performance indicators in tables, diagrams and graphs.
- Visiting the production unit in Åhus and interviewing selected employees at other units as well as undertaking visits at Group level in order to assess whether data and information is reported and compiled in a standardized format and in accordance with established principles, in all material aspects.
- Reviewing underlying documentation, on a test basis, to assess whether the information in the tables, diagrams and graphs in the section "Responsibility" of the Annual Report for 2006 is based on that documentation.
- Reporting to the Director of Corporate Responsibility & Quality on the continuing results of our limited review.

Based on our limited review procedures, nothing has come to our attention that causes us to believe that the data and information provided in the tables, diagrams and graphs on pages 20–29 of the section "Responsibility" of the Annual Report for 2006 have not, in all material aspects, been prepared in accordance with the above stated criteria.

Stockholm, 20 February 2007

Öhrlings PricewaterhouseCoopers AB

Lars-Olle Larsson
Expert Member, FAR SRS

Board of Directors' Report

The Board of Directors' Report also includes the comments to the financial reports on pages 33–41.

KEY RATIOS FOR THE GROUP	2006	2005	Change, %
Net sales, SEK mn	10,345	9,578	8
Operating profit, SEK mn	2,275	2,069	10
Operating margin, %	22.0	21.6	–
Profit for the year, SEK mn	1,577	1,506	5
Cash flow before financing activities, SEK mn	–74	68	neg
Return on equity, %	22.3	25.1	–
Interest-bearing net liability, SEK mn	5,267	5,153	2
Debt/equity ratio, times	0.7	0.7	–
Equity/assets ratio, %	40.5	40.2	–
Sales volyme, thousands 9-litre cases	25,732	24,885	3

Definitions see page 83.

GROUP OPERATIONS AND STRUCTURE

V&S Group is a leading producer and distributor of wines and spirits in Northern Europe, and one of the world's ten largest international spirits companies. The Group's operation comprises the purchase, production, packaging, distribution, marketing and sales of wine and spirit beverages. The Group has wholly-owned operations in ten countries and sales in more than 125 markets. Sales take place both through V&S's own organization on certain Northern and Central European markets, and through the part-owned sales companies Future Brands LLC in the United States and Maxxium Worldwide B.V. for a number of other major markets. The Group comprises three business areas:

- V&S Absolut Spirits, whose operations include the production, marketing and distribution of global premium spirits brands. The product portfolio includes ABSOLUT VODKA, Level Vodka, Cruzan Rum, Plymouth Gin and Friïs Vodka.
- V&S Distillers, whose operations include the sale, production and development of traditional spirits on markets in Northern Europe. The main categories are aquavit, bitters, vodka and other classic local brands.
- V&S Wine, which sells wines on the Northern European market from internationally well-known producers and bulk-imported wines bottled and marketed under V&S brands.

The Parent Company V&S Vin & Sprit AB (publ) is wholly owned by the Kingdom of Sweden. The Swedish government has announced its intention to reduce its shareholding in V&S.

Note 34 lists the companies in the Group.

The year in brief

- Group net sales for 2006 increased by 8 per cent to SEK 10,345 (9,578) million.
- Operating profit increased by 10 per cent to SEK 2,275 (2,069) million.
- Profit after tax totalled SEK 1,577 (1,506) million, an increase of 5 per cent.
- Sales volumes increased by 3 per cent to 25.7 million 9-litre cases (24.9).
- All business areas have strengthened their profitability.
- The Group's most important brand, ABSOLUT VODKA, continued to increase both its volumes and sales in the United States, and on most other prioritized markets.
- At the end of 2006, V&S and Foster's Wine Estates signed a business agreement for distribution on the entire Nordic market. The agreement covers Foster's entire wine portfolio including Lindemans and Penfolds.
- The remaining 37 per cent of shares in Cruzan International, Inc., with Cruzan Rum, were acquired in 2006.
- An investment of USD 153 million in Beam Global Spirits & Wine, Inc., ensures that V&S maintains its strategic 10 per cent shareholding.
- V&S is planning to close the plant in Sundsvall, Sweden.

Product development and new products

To maintain its market-leading positions, V&S focuses on product development and innovation. Every year existing products are developed further and new products are launched in all business areas. Product development encompasses the development of packaging, beverage content, marketing and concepts. The Group also gains new products through acquisitions and new agency brands. Below are a selection of new products in 2006:

- ABSOLUT RUBY RED, with ruby red grapefruit flavour.
- ABSOLUT PEARS, flavoured with pears. Launched in early 2007 beginning in the United States.
- New launch of O.P. Anderson and Grönstedts Cognac.
- Aalborg Frisk, an aquavit-type spirit with a lower alcohol content (30 per cent) for the Danish market.
- Emma Brøndum, a fruit aquavit made from woodland berries for the Nordic market.
- Launch of Aussie, quality Australian wines in a new type of packaging.

Acquisitions

The acquisition of Cruzan International, Inc., which began in 2005, was completed during the year when V&S acquired the remaining 37 per cent in March for a total cost of USD 85 million (SEK 658 million).

In July, the Group acquired newly issued preference shares in Beam Global Spirits & Wine, Inc. at a cost of USD 153 million (SEK 1,127 million). The investment enables V&S Group to retain its strategic 10 per cent holding in Beam, which was acquired when the agreement on a co-owned distribution organization was entered into in 2001.

Divestments

In March the Danzka Vodka brand was sold to a company in the same group from which the majority shareholding in Cruzan was acquired. Danzka Vodka is, however, still produced by V&S in Denmark.

During the year the Heering Cherry Liqueur brand and the Domaine Rabiega vineyard and conference facility in France were also divested.

Divestments during the year resulted in net capital gains of SEK 135 (57) million in total.

Investments

During the year, the Group's investment amounted to SEK 2,097 (1,227) million, which mainly relates to the acquisition of shares in Beam Global Spirits & Wine, Inc. and Cruzan International, Inc., but also to capacity and environmental investments in Åhus, Sweden.

Structural changes

In spring 2006, the closure of production in Dalby, Denmark was completed.

V&S Group is planning to close the factory in Sundsvall, Sweden, in 2008. Production that currently takes place in Sundsvall would, in that case, be transferred to other factories. A closure would affect 80 employees and would be expected to create savings of SEK 35 million a year as of 2009. The cost of the planned closure is estimated at SEK 74 million and has has been charged to the Group's operating profit. The cost mainly refers to the write-down of assets.

Number of employees

The average number of employees based on the number of hours worked in 2006 was 2,304 (2,245). Salaries and other remuneration totalling SEK 991 (807) million were paid.

AVERAGE NUMBER OF EMPLOYEES

	2006	2005
Average no. of employees	2,304	2,245
– Sweden	747	770
– Other countries	1,557	1,475
Business areas		
– V&S Absolut Spirits	513	460
– V&S Distillers	993	1,118
– V&S Wine	430	521
– Other	368	146

The number of employees by country and other employee information are shown in Note 6.

Work of the Board of Directors

In 2006, the Board held eight meetings were minutes were taken. The work is based on a set procedure. There is an Audit Committee and a Remuneration Committee. Further information about the Board's work is provided in the 2006 Corporate Governance Report.

THE GROUP'S RISK MANAGEMENT

The Group's financial risks are controlled and dealt with by a central treasury department. The principles are stated in a financial policy set out by the Board of Directors. Note 30 contain a description of the most important risks and how they are dealt with. The Group's other risks are described in the Corporate Governance Report.

Sensitivity analysis

V&S's sales and profits are influenced by several factors. The factors with the greatest impact on profits are:

- The US dollar, which is the Group's primary sales currency. A fluctuation of SEK 0.10 in the US dollar exchange rate would affect the Group's operating profit by approximately SEK 35 million.
- Sales volumes on the American market. A change of 1 per cent would affect operating profit by approximately SEK 25 million.
- A rise in market interest rates. An increase of one percentage point would increase interest expense by approximately SEK 46 million.

ENVIRONMENTAL INFORMATION

Based on its Environmental Policy, V&S works through action plans to actively contribute to a development that will encourage the sustainable use of resources. In Sweden, the Group operates two plants in the Parent Company that must have permits in accordance with the Environment Protection Act, while a subsidiary operates one plant that requires permits. A further operation is required to submit notification.

The operation in Nöbbelöv, Sweden, that requires a permit produces 50 MLPA (million litres pure alcohol). The operation's most significant environmental aspects are discharges of polluted water into the public sewage system and discharges of hydrocarbons into the air, mainly in the form of ethanol. In 2006 the plant in Nöbbelöv completed the trial-period study stipulated in the permit regarding analysis of the plant's handling of process wastewater and discharges to air. The results were submitted for final assessment.

The operation in Åhus, Sweden that requires a permit comprises the distillation of alcoholic beverages, production of fruit wine and bottling of wine and spirits. No wines are currently produced or bottled at the plant. The operation affects the environment through emissions to air and water, as well as noise and waste. During the year the operation in Åhus has been dealing with the environmental issues surrounding registration at the new preparation and bottling facility known as "the Satellite". Moreover, the operation's water requirements have been examined and the process of applying for permits has begun.

The notifiable operation is a plant in Sundsvall, Sweden for blending and bottling alcoholic beverages. The operation affects the environment through emissions to air and water, as well as waste. The Environmental testing delegation decided in connection with increased production in 2001 on a trial period, as they were of the opinion that the question of the plant's energy supply in particular needed to be investigated further. The report of the investigation and measures taken was submitted to the authorities in June 2003. The final terms regarding energy issues and discharges to water were determined by the environmental testing delegation in autumn 2005. As regards emissions to air, the trial period has been extended and a decision is expected in spring 2007.

The operations described above account for the overriding majority of the Parent Company's sales.

CHANGE IN REPORTING OF JOINT VENTURE

During 2006, the Group started to apply the equity method instead of the proportional method when reporting the Group's joint venture Future Brands. The method has been applied retroactively as of the acquisition date. The quarterly figures for 2006 and the comparison figures for 2005 have therefore been adjusted accordingly.

OUTLOOK

V&S Absolut Spirits is expected to enjoy continued growth on the prioritized markets. At the same time, the cost rationalization and a focus on the most profitable products continue to improve profitability on the Northern European markets. This should increase V&S's overall profitability.

PROPOSED DIVIDEND

The Board of Directors proposes a dividend of SEK 710 (600) million for 2006. The proposed dividend correspond to 10.5 per cent of average equity, which corresponds to the owners long-term required return on investment.

For additional information on the proposed distribution of earnings, see page 70.

SIGNIFICANT EVENTS AFTER YEAR-END

Systembolaget, the Swedish Alcohol Retailing Monopoly, has decided to change distributor for approximately 15 of V&S's wine products. They hold that V&S has contravened the terms of its supplier contract during the years 2001–2003 with reference to the prosecution of certain employees at V&S for bribery. The change of distributor equates to annual sales of SEK 32 million. V&S is taking the matter to arbitration to clarify whether Systembolaget is entitled to carry out such action.

On 1 February 2007, V&S Group signed an agreement with the French spirits company Belvédère regarding the sale of Florida Distillers, whose operations were part of the acquisition of Cruzan International, Inc. In 2006 the operation's sales amounted to SEK 600 million, operating profit to SEK 48 million and the number of employees to 303.

Consolidated income statement

1 January – 31 December

Amounts in SEK millions	Note	**2006**	2005
Net sales	2, 3	10,345.4	9,578.1
Shares in associated companies' and joint ventures' results		238.3	213.9
Other operating revenues	5	312.8	155.5
		10,896.5	**9,947.5**
Change in work-in-progress and finished goods		–77.0	–49.5
Raw materials and supplies		–2,672.0	–2,363.8
Merchandise		–670.0	–848.7
Cost of employee benefits	6	–1,407.4	–1,160.0
Other external expenses		–3,530.8	–3,266.7
Depreciation/amortization and write-down of tangible and intangible assets	11, 12	–264.4	–189.7
Operating profit	3, 6, 7, 31	**2,274.9**	**2,069.1**
Financial income		108.4	134.5
Financial expenses		–389.3	–268.2
Net financial income and expense	8	**–280.9**	**–133.7**
Profit before taxes		**1,994.0**	**1,935.4**
Taxes	10	–416.8	–429.7
PROFIT FOR THE YEAR		**1,577.2**	**1,505.7**
Attributable to:			
Parent Company shareholders		1,571.9	1,501.3
Minority interest		5.3	4.4
		1,577.2	**1,505.7**
Profit per share before and after dilution	23	3.1	3.0
Proposed dividend per share	22	1.4	1.2
Recognized dividend per share		1.2	0.8

Comments to the income statement

NET SALES AND OPERATING INCOME

Net sales

The Group's invoiced sales excluding alcohol excise taxes increased by 8 per cent to SEK 10,345 (9,578) million.

CHANGE IN NET SALES

%	2006	2005
Acquired growth	5.7	2.2
Organic growth	2.8	1.9
Changes in exchange rates	–0.5	2.1
Total	**8.0**	**6.2**

The increase is primarily due to the increase in sales within business area V&S Absolut Spirits, and refers both to organic growth and the acquisition of Cruzan Rum. The rise in Group sales also includes Florida Distillers which is in the process of being sold and is reported in the other operations segment. Other business areas report slight decreases in sales, partly explained by divestments. The slightly lower average US dollar exchange rate for the period has affected sales by SEK –52 million.

The Group's total sales volumes during 2006 amounted to 25.7 million 9-litre cases (24.9), an increase of 3 per cent compared with last year.

Of the total sales volume, spirits accounted for 16.3 million 9-litre cases (15.2) and wine for 9.4 million 9-litre cases (9.7).

Other revenues

Improved results in the part-owned distribution company Maxxium are behind the increase in "Shares in associated companies' and joint ventures' results". "Other operating revenues" include capital gains of SEK 148 (66) million.

Operating profit

Group operating profit for 2006 increased by 10 per cent to SEK 2,275 (2,069) million. The operating margin improved to 22.0 per cent (21.6) The improvement in operating margin primarely refers to a shift towards products with better margins and improved cost efficiency.

Changes in the US dollar exchange rate has had an impact on the profit of approximately SEK –13 (49) million. The operating profit has been charged by SEK 74 million of which SEK 57 million refers to the write down of assets, for the planned closure of the plant in Sundsvall, Sweden. Operating profit includes profit amounting to SEK 48 million from operations in the process of being sold.

Financial net

Net financial income and expenses increased to SEK –281 (–134) million, mainly due to higher interest rates and increased net borrowings as a result of investments over the year.

Taxes

Tax expense for the year amounted to SEK –417 (–430) million, corresponding to 20.9 per cent (22.2) of profit before tax.

The majority of V&S's activities are carried out in Sweden where the nominal tax rate is 28 per cent. Other important countries where V&S has operations are the other Nordic countries, the United States, Germany and Great Britain, which have either higher or lower tax rates than Sweden. A weighted average of the tax rates in the countries where V&S has operations is approximately 30 per cent.

The actual tax rate for the Group is also affected by the fact that not all costs are tax deductible and not all income is taxable. V&S has hedged its shareholding in Beam Global Spirits & Wine, Inc. by raising a loan of an equivalent amount in USD. Under Swedish tax law, a change in the value of foreign business-related shares is not taxable. A change in the value of loans in foreign currencies due to exchange rate variation, however, is taxable even if the loan has been raised to hedge the value of the share investment. A fall in the US dollar increases the tax expense, while a rise in the US dollar decreases the tax expense. In 2006, the fall in the US dollar increased the tax expense by SEK 125 million, while the exchange rate variation in 2005 reduced the tax expense by SEK 129 million.

V&S's strategy is for the Parent Company to own the Group's trademarks. During the year, the Parent Company therefore acquired Plymouth Gin and Cruzan Rum from subsidiaries. This had a positive one-off tax effect of SEK 274 million in 2006.

Profit for the year

Profit for the year after tax increased by 5 per cent to SEK 1,577 (1,506) million, and profit per share amounted to SEK 3.1 (3.0) million.

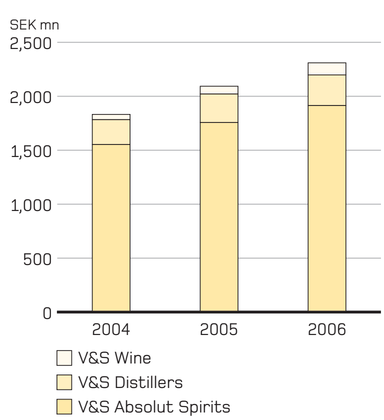
DEVELOPMENT BY BUSINESS AREA

V&S Absolut Spirits

Net sales increased by 9 per cent to SEK 5,882 (5,402) million. Sales volumes increased by 13 per cent to 11.2 million 9-litre cases (9.9). This increase is due primarily to both organic growth for ABSOLUT VODKA and the acquisition of Cruzan Rum. The sales volume for ABSOLUT VODKA increased by 7 per cent in 2006. As a result of increased investments in marketing and a strengthening of both the own organization and the part-owned sales organization Future Brands, sales volumes for ABSOLUT VODKA have increased in the United States. In 2006 ABSOLUT VODKA also increased on most of the prioritized markets outside of the US. Markets outside of the US now account for just over 50 per cent and have collectively exceeded the sales volume on the American market. This growth can be explained by increased investments in marketing as well as a strengthened

NET SALES BY BUSINESS AREA

OPERATING PROFIT BY BUSINESS AREA



SEGMENT DATA

	Net sales SEK mn		Operating profit SEK mn		Volyme thousand 9-litre cases	
	2006	2005	**2006**	2005	**2006**	2005
V&S Absolut Spirits	5,882	5,402	1,914	1,757	11,195	9,903
V&S Distillers	1,948	2,033	284	264	5,603	5,820
V&S Wine	2,159	2,212	112	72	9,465	9,663
Capital gains/write-downs	–	–	61	57	–	–
Other and eliminations	356	–69	–96	–81	–531	–501
	10,345	**9,578**	**2,275**	**2,069**	**25,732**	**24,885**

organization with a greater focus on prioritized markets. The markets that have increased the most, besides the American market, are the UK, Canada, Germany and Brazil.

Cruzan Rum has been an integrated part of V&S Absolut Spirits since 1 July 2006. Cruzan's sales volume increased by approximately 5 per cent. Sales of other brands have developed well during the year. The sales volume for super premium brand Level Vodka increased by just under 30 per cent and it is the third largest super premium vodka on the American market. The sales volume for Plymouth Gin increased almost 20 per cent and Frïs Vodka just over 20 per cent.

During the year Danzka Vodka was divested as part of the Group's efforts to achieve a better balance between different product categories.

Operating profit improved by 9 per cent to SEK 1,914 (1,757) million. Operating profit has increased as much as sales even though profitability in the acquired operation is lower and one-off costs for restructuring the sales organization arose during the period. The improved profit can be explained by the slight increase in margins for comparable units during the period.

V&S Distillers

Sales decreased by 4 per cent to SEK 1,948 (2,033) million. This is because sales volumes for the period decreased by 3 per cent to 5.6 million 9-litre cases (5.8). The decline in sales is due to the divestment of local Czech brands, lower sales primarily in Sweden and Germany, and the discontinuation of certain sales to countries outside the market area. At the same time sales increased in Finland, Denmark and Poland. Sales for the aquavit and bitters categories and other classic local brands decreased while vodka sales increased.

Operating profit for 2006 increased by 8 per cent to SEK 284 (264) million, and the operating margin also improved. The improvement is a result of the focus on products with higher margins, a focus on costs and the implementation of streamlining measures in the operation. During 2006, V&S Distillers has continued its integration work from a country-based to a function-based organization. Similarly, work on efficiency and cost reduction has continued. The business area has also enhanced profitability by prioritizing the strongest brands, whereby the number of products has been reduced.

V&S Wine

Sales income was down 2 per cent to SEK 2,159 (2,212) million. Sales volumes amounted to 9.5 million 9-litre cases (9.7), also a decrease of 2 per cent. The decline is attributable to the divestment of Østjysk Vinforsyning and the loss of a wine agency in Sweden last year, as well as reduced subcontracted bottling in Denmark and lower agency sales volumes of brewery products which took place in Estonia up to the end of 2006. Sales increased in Finland and Norway.

The operating profit improved considerably to SEK 112 (72) million, as did the operating margin. Profit has been strengthened, partly through cost control and streamlining, and partly through a focus on products with higher margins. V&S Wine's range has been simplified by reducing the number of own brands and suppliers. Similarly, the focus on controlling and reducing costs has continued.

Consolidated balance sheet

On 31 December

Amounts in SEK millions	Note	2006	2005
ASSETS	4		
Intangible fixed assets	11	4,008.8	4,097.5
Tangible fixed assets	12	1,817.6	2,056.1
Investments in associated companies and joint ventures	13	2,875.6	3,110.1
Financial investments	15, 30	3,521.4	2,842.2
Long-term receivables	17	2.2	45.1
Deferred tax assets	10	596.2	182.9
Total fixed assets		**12,821.8**	**12,333.9**
Inventories	18	954.9	1,288.7
Tax assets	10	171.1	128.3
Accounts receivable	19	2,160.8	2,266.2
Prepaid expenses and accrued revenues	20	353.3	190.9
Other receivables	17	585.1	287.0
Cash and cash equivalents	36	400.1	626.4
Assets held for sale	21	427.0	–
Total current assets		**5,052.3**	**4,787.5**
TOTAL ASSETS		**17,874.1**	**17,121.4**
EQUITY	22		
Share capital		500.0	500.0
Other capital contributed		100.0	100.0
Reserves		71.8	134.9
Retained earnings including profit for the year		6,560.4	5,588.5
Equity attributable to Parent Company shareholders		**7,232.2**	**6,323.4**
Minority interest		**15.2**	**562.9**
TOTAL EQUITY		**7,247.4**	**6,886.3**
LIABILITIES	4		
Long-term interest-bearing liabilities	24, 30	3,644.8	4,784.5
Provisions for pensions	26	89.4	84.6
Other provisions	27	19.9	6.4
Deferred tax liabilities	10	2,174.0	1,883.0
Total long-term liabilities		**5,928.1**	**5,758.5**
Current interest-bearing liabilities	24, 30	1,932.8	910.1
Accounts payable		737.4	708.8
Tax payable	10	85.7	33.6
Other liabilities	28	1,159.3	1,191.2
Accrued expenses and prepaid revenues	29	717.1	624.2
Provisions	27	1.4	8.7
Liabilities attributable to assets held for sale	21	64.9	–
Total current liabilities		**4,698.6**	**3,476.6**
TOTAL LIABILITIES		**10,626.7**	**10,235.1**
TOTAL EQUITY AND LIABILITIES		**17,874.1**	**17,121.4**

For details of the Group's pledged assets and contingent liabilities, see Note 32.

Comments to the balance sheet

FINANCIAL POSITION

Assets and capital employed

During the year, Group total assets increased by 4 per cent.

Capital employed, defined as total assets less non-interest bearing liabilities including deferred tax liabilities, increased by SEK 1,172 million to SEK 12,822 (11,650) million. The increase is due primarily to the acquisition of the shares in Beam Global Spirits & Wine, Inc. Return on capital employed was 18.6 per cent (18.9).

Investments in associated companies and joint ventures comprise the holdings in the distribution companies Future Brands och Maxxium. The item has decreased by SEK 235 million of which SEK 268 million refer to currency exchange rate effects.

Financial investments comprise the holding in Beam Global Spirits & Wine, Inc. (formerly Jim Beam Brands). During the year, the Group acquired newly issued preference shares in Beam, in the amount of USD 153 million (SEK 1,127 million).

Deferred tax assets increased as a result of the Parent Company's acquisition of the Cruzan Rum and Plymouth Gin brands from subsidiaries in line with V&S's strategy.

CAPITAL EMPLOYED

SEK mn	2006	2005
Capital employed	12,822	11,650
– of which, trade marks	2,858	2,905
– of which, goodwill	1,147	1,192
Net interest-bearing loans	5,267	5,153
Minority interest	15	563
Equity	7,247	6,886

For further information about the intangible assets, see Note 11..

NET INTEREST-BEARING LOANS

SEK mn	2006	2005
Interest-bearing loans	5,867	5,667
Cash and cash equivalents	–400	–626
Net interest-bearing loans	5,267	5,153
Debt/equity ratio, times	0.7	0.7
Equity/assets, %	40.5	40.2

Florida Distillers' assets and liabilities are reported under assets or liabilities held for sale.

Working capital

Working capital amounted to SEK 1,804 (1,942) million. Accounts receivable declined to SEK 2,161 (2,266) million, partly due to the lower US exchange rate. Inventories declined to SEK 955 (1,289) million and the turnover rate increased to 9.2 times per year (8.3). The change in inventories is due to a combination of divestments of operations, streamlined logistics in Sweden and Denmark, a lower US dollar exchange rate and that Florida Distillers has been reported as an operation held for sale.

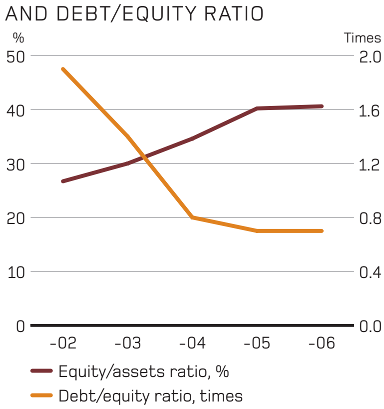
Net interest-bearing loans

Net interest-bearing loans increased by SEK 114 million to SEK 5,267 (5,153) million, of which SEK 89 (85) million comprised pension obligations. The increase is mainly a result of borrowing in connection with acquisitions.

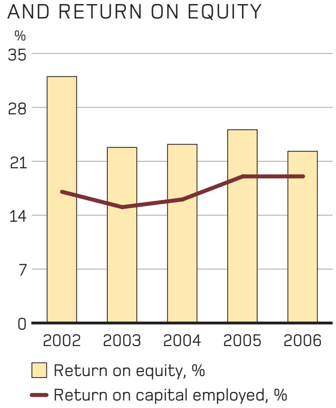
The Group's long-term loan financing mainly comprises bond loans. The loans have an average term of 3.0 (3.5) years, and an average fixed interest term of 5.0 (6.2) months.

The Group's aim is to have an average due date of at least two years and an average fixed interest term of one year at the maximum for long-term borrowing. Short-term loan financing consists of a bond loan of SEK 600 million.

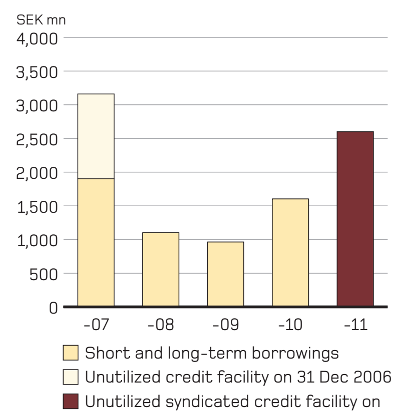
EQUITY/ASSETS RATIO AND DEBT/EQUITY RATIO



RETURN ON CAPITAL EMPLOYED AND RETURN ON EQUITY



BORROWINGS BY MATURITY



Consolidated equity

Amounts in SEK millions	Equity attributable to Parent Company shareholders: Share capital	Other capital contributed	Reserves	Retained earnings including profit for the year	Total	Minority interest	Total equity
Opening balance 1 Jan 2005	500.0	100.0	–38.2	4,487.2	5,049.0	69.8	5,118.8
Change in translation reserve for the year	–	–	206.0	–	206.0	0.4	206.4
Change in hedging reserve for the year	–	–	–32.9	–	–32.9	–	–32.9
Business combinations	–	–	–	–	–	552.1	552.1
Acquisition of minority	–	–	–	–	–	–63.8	–63.8
Total change in net wealth recognized directly in equity, excluding transactions with company owner	–	–	173.1	–	173.1	488.7	661.8
Profit for the year	–	–	–	1,501.3	1,501.3	4.4	1,505.7
Dividend	–	–	–	–400.0	–400.0	–	–400.0
CLOSING BALANCE 31 DEC 2005	**500.0**	**100.0**	**134.9**	**5,588.5**	**6,323.4**	**562.9**	**6,886.3**
Opening balance 1 Jan 2006	500.0	100.0	134.9	5,588.5	6,323.4	562.9	6,886.3
Change in translation reserve for the year	–	–	–108.0	–	–108.0	–12.7	–120.7
Change in hedging reserve for the year	–	–	44.9	–	44.9	–	44.9
Acquisition of minority	–	–	–	–	–	–540.3	–540.3
Total change in net wealth recognized directly in equity, excluding transactions with company owner	–	–	–63.1	–	–63.1	–553.0	–616.1
Profit for the year	–	–	–	1,571.9	1,571.9	5.3	1,577.2
Dividend	–	–	–	–600.0	–600.0	–	–600.0
CLOSING BALANCE 31 DEC 2006	**500.0**	**100.0**	**71.8**	**6,560.4**	**7,232.2**	**15.2**	**7,247.4**

Additional information can be found in Note 22.

The proportion of capital employed financed long-term on 31 December 2006 amounted to 112 (127) per cent.

For further information about the long-term loans and confirmed credit facilities, see Note 30.

Cash and cash equivalents

Cash and cash equivalents amounted to SEK 400 (626) million. On 31 December 2006, the Group had unutilized credit facilities totalling SEK 3,860 million, which together with the cash and cash equivalents corresponds to a liquidity reserve of SEK 4,260 (5,862) million.

Equity

Equity increased by SEK 361 million during the year and amounted to SEK 7,247 (6,886) million at the year-end. The increase is partly due to the profit for the year of SEK 1,577 million, and partly to the dividend granted which decreased equity by SEK 600 million and the minority interest which decreased as a result of the acquisition of the remaining shares in Cruzan International, Inc.

Return on equity decreased to 22.3 (25.1) per cent.

Consolidated cash flow analysis

1 January – 31 December

Amounts in SEK millions	2006	2005
OPERATING ACTIVITIES		
Profit after financial income and expenses	1,994,0	1,935,4
Adjustment for items not included in cash flow	269.0	27,8
Income tax paid	–667,0	–545,5
Cash flow from operating activities before changes in working capital	**1,596.0**	**1,417,7**
Cash flow from operating changes in working capital		
Increase(–)/Decrease(+) in inventories	97,0	16,7
Increase(–)/Decrease(+) in operating receivables	–232,1	–381,6
Increase(+)/Decrease(–) in operating liabilities	129,8	–92,0
Cash flow from operating activities	**1,590.7**	**960,8**
INVESTING ACTIVITIES		
Acquisition of tangible fixed assets	–312,7	–253,5
Sales of tangible fixed assets	96,1	36,1
Sales of intangible assets	156,7	–
Acquisition of subsidiaries, net effect on liquidity	–658,2	–973,9
Divestment of subsidiaries, net effect on liquidity	–	87,6
Dividend from associated companies	173.7	210,9
Acquisition of financial assets	–1,126,6	–
Sales of financial assets	6,8	–
Cash flow from investing activities	**–1,664.2**	**–892,8**
FINANCING ACTIVITIES		
Loans raised	2,353,3	400,0
Repayment of loans	–1,899,7	–936,1
Dividend paid to Parent Company shareholders	–600,0	–400,0
Cash flow from financing activities	**–146,4**	**–936,1**
Cash flow for the year	**–219,9**	**–868,1**
Cash and cash equivalents, opening balance	**626,4**	**1,462,1**
Exchange rate difference in cash and cash equivalents	**–6,4**	**32,4**
CASH AND CASH EQUIVALENTS, CLOSING BALANCE	**400,1**	**626,4**

Additional information can be found in Note 36.

Comments to the Cash Flow

FROM OPERATING ACTIVITIES

Cash flow from operating activities amounted to SEK 1,591 (961) million. The improvement can be attributed partly to the rise in profit, and partly to higher profit from forwards for hedging foreign net assets. Tax payments, however, have increased in the Parent Company as a result of exchange rate gains on these forwards.

FROM INVESTING ACTIVITIES

Cash flow from investing activities amounted to SEK –1,664 (–893) million. The investments refer to acquisition of shares in Beam Global Spirits & Wine, Inc., and the outstanding shares in Cruzan International Inc., but also to capacity and environmental investments in Åhus. Divestments refer to the brands Danzka Vodka and Heering Cherry Liquer, as well as the divestment of the Domaine Rabiega vineyard and conference facility.

FROM FINANCING ACTIVITIES

Cash flow from financing activities amounted to SEK –146 (–936) million. During the year SEK 1,900 million of debt was repaid, of which SEK 500 million refers to a bond loan which was due and the remaining to repayment of short-term borrowing in accordance with the commercial paper programme. New loans raised refer to utilization of the Group's commercial paper programme and are mainly a result of the increased investments. The dividend to shareholders was higher than last year and amounted to SEK 600 (400) million.

For further information on the cash flow, see Note 36.

Parent Company

INCOME STATEMENT *1 January – 31 December*

Amounts in SEK millions	Note	2006	2005
Net sales	2, 3	5,653.7	5,646.8
Change in work-in-progress and finished goods		–26.3	–14.2
Other operating revenues	5	207.1	88.0
		5,834.5	**5,720.6**
Raw materials and supplies		–1,167.8	–1,071.2
Merchandise		–558.3	–530.0
Other external expenses		–1,900.7	–1,977.6
Cost of employment benefits	6	–528.8	–523.7
Depreciation/amortization and write-down of tangible and intangible assets	11, 12	–202.5	–117.0
Operating profit		**1,476.4**	**1,501.1**
FINANCIAL INCOME AND EXPENSES			
Profit from shares in Group companies		–60.8	132.7
Profit from securities and receivables that are fixed assets		97.8	83.2
Other interest income and similar items		594.9	54.9
Interest expenses and similar items		–409.1	–544.2
Profit after financial income and expenses	8	**1,699.2**	**1,227.7**
Appropriations	9	–543.8	–9.3
Profit before taxes		**1,155.4**	**1,218.4**
Taxes	10	–333.7	–306.7
PROFIT FOR THE YEAR		**821.7**	**911.7**

PARENT COMPANY

The Parent Comany's sales included SEK 2,805 (2,983) million in sales to Group companies. Purchases from Group companies amounted to SEK 291 (314) million. In 2006, the average number of employees was 752 (788). Non-restricted equity amounted to SEK 3,599 (3,378) million.

The operative business is run through three business areas which cross the legal units. The sections within each business area with operations in Sweden and France during the year, are reported in the Parent Company. Group-wide functions are also included.

Financial risk management for the entire Group takes place in the Parent Company and is desbribed in more details in Note 30. There is no separate financial risk management for the Parent Company.

BALANCE SHEET *On 31 December*

Amounts in SEK millions	Note	2006	2005
ASSETS			
FIXED ASSETS			
Intangible assets	11	1,610.7	268.9
Tangible assets	12	974.3	954.9
Financial assets			
Shares in Group companies	34	6,654.6	6,822.7
Receivables from Group companies	14	538.3	856.6
Other long-term holdings of securities	16, 30	4,930.5	3,803.9
Deferred tax asset	10	15.5	12.1
Total financial assets		**12,138.9**	**11,495.3**
TOTAL FIXED ASSETS		**14,723.9**	**12,719.1**
CURRENT ASSETS			
Inventories etc.	18	345.9	374.2
Current receivables			
Account receivable	19	774.9	837.3
Receivables from Group companies /associated companies	14	1,084.0	1,384.5
Tax assets		163.3	97.8
Other receivables		14.9	17.2
Prepaid expenses and accrued revenues	20	307.2	127.6
Total current receivables		**2,344.3**	**2,464.4**
Short-term investments	30	76.0	72.8
Cash and cash equivalents	36	114.5	79.6
TOTAL CURRENT ASSETS		**2,880.7**	**2,991.0**
TOTAL ASSETS		**17,604.6**	**15,710.1**
EQUITY AND LIABILITIES			
EQUITY	22		
Restricted equity			
Share capital (500 shares)		500.0	500.0
Legal reserve		100.0	100.0
Non-restricted equity			
Earnings carried forward		2,777.7	2,466.3
Profit for the year		821.7	911.7
TOTAL EQUITY		**4,199.4**	**3,978.0**
UNTAXED RESERVES	35	**3,129.3**	**2,585.6**
PROVISIONS			
Provisions for pensions and similar obligations	26	97.8	93.4
Provisions for taxes	10	32.2	30.2
Other provisions	27	17.7	–
		147.7	**123.6**
LONG-TERM LIABILITIES			
Bond loans	25	5,609.9	6,456.0
		5,609.9	**6,456.0**
CURRENT LIABILITIES			
Liabilities to credit institutions	25	2,138.9	1,016.1
Accounts payable		336.0	259.8
Liabilities to Group companies /associated companies		1,272.1	527.5
Other liabilities	28	410.8	451.8
Accrued expenses and prepaid revenues	29	360.5	311.7
		4,518.3	**2,566.9**
TOTAL EQUITY AND LIABILITIES		**17,604.6**	**15,710.1**
Pledged assets	32	**None**	**None**
Contingent liabilities	32	**608.4**	**655.7**

CASH FLOW ANALYSIS *1 January – 31 December*

Amounts in SEK millions	**2006**	2005
OPERATING ACTIVITIES		
Profit after financial income and expenses	1,699.1	1,227.7
Adjustment for items not included in cash flow	–113.8	260.0
Income tax paid	–400.6	–305.4
Cash flow from operating activities before changes in working capital	**1,184.7**	**1,182.3**
Cash flow from changes in working capital		
Increase(–)/Decrease(+) in inventories	28.3	10.6
Increase(–)/Decrease(+) in operating receivables	365.3	–714.9
Increase(+)/Decrease(–) in operating liabilites	778.5	–327.6
Cash flow from operating activities	**2,356.8**	**150.4**
INVESTING ACTIVITIES		
Acquisition of tangible fixed assets	–202.3	–120.1
Sales of tangible fixed assets	40.4	5.7
Acquisition of intangible fixed assets	–1,392.5	–0.8
Acquisition of subsidiaries	–0.2	–52.6
Divestments of subsidiaries	37.8	100.7
Change in financial receivables from Group companies	318.3	–316.8
Acquisitions of financial assets	–1,126.6	–
Sales of financial assets	148.5	7.7
Cash flow from investing activities	**–2,176.6**	**–376.2**
FINANCING ACTIVITIES		
Loans raised	2,353.3	400.0
Repayment of loans	–1,895.4	–710.1
Dividend paid	–600.0	–400.0
Cash flow from financing activities	**–142.1**	**–710.1**
Cash flow for the year	**38.1**	**–935.9**
Cash and cash equivalents, opening balance	**152.4**	**1,088.3**
CASH AND CASH EQUIVALENTS, CLOSING BALANCE	**190.5**	**152.4**

Additional information can be found in Note 36.

EQUITY

	Restricted equity		Non-restricted equity			
Amounts in SEK millions	Share capital	Legal reserve	Translation reserve	Earnings carried forward	Profit for the year	Total equity
Opening balance 1 Jan 2005	500.0	100.0	–	2,858.8	–	3,458.8
Translation difference for the year [1]	–	–	7.5	–	–	7.5
Profit for the year	–	–	–	–	911.7	911.7
Dividend	–	–	–	–400.0	–	–400.0
Closing balance 31 Dec 2005	**500.0**	**100.0**	**7.5**	**2,458.8**	**911.7**	**3,978.0**
Opening balance 1 Jan 2006	500.0	100.0	7.5	3,370.5	–	3,978.0
Translation difference for the year [1]	–	–	–0.3	–	–	–0.3
Profit for the year	–	–	–	–	821.7	821.7
Dividend	–	–	–	–600.0	–	–600.0
Closing balance 31 Dec 2006	**500.0**	**100.0**	**7.2**	**2,770.5**	**821.7**	**4,199.4**

[1] Charged directly to equity.

Additional information can be found in Note 22.

Notes to the financial statements

Contents

NOTE 1 ACCOUNTING PRINCIPLES

COMPLIANCE WITH STANDARDS AND LEGISLATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations from the International Financial Reporting Interpretations Committee (IFRIC) as approved by the European Commission for application within the EU. Moreover, the Swedish Financial Accounting Standards Council's Recommendation RR 30:05, Supplementary Accounting Regulations for Groups, has been applied.

The Parent Company applies the same accounting principles as the Group except in the instances specified below under 'Parent Company's accounting principles'. Deviations between the Parent Company and Group principles are caused by limitations in opportunities to apply IFRS in the Parent Company resulting from the Swedish Annual Accounts Act and the Law on safeguarding of pension commitments, and in some cases by tax-related factors.

The Annual Report and consolidated financial statements have been approved for publication by the Board of Directors on 20 February 2007. The Group's income statement and balance sheet and the Parent Company's income statement and balance sheet will be subject to adoption at the Annual General Meeting on 20 March 2007.

MEASUREMENT BASIS FOR PREPARING THE PARENT COMPANY'S AND GROUP'S FINANCIAL REPORTS

Assets and liabilities are recognized at historical cost, except for certain financial assets and liabilities which are recognized at fair value. Financial assets and liabilities recognized at fair value comprise derivative instruments, financial assets classified as financial assets at fair value through income statement, or available-for-sale financial assets.

Fixed assets held for sale and disposal groups are recognized at the lowest of the previous carrying amount and fair value less costs for sell.

FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The Parent Company's functional currency is the Swedish krona (SEK), which is also the presentation currency for the Parent Company and the Group. This means that the financial statements are presented in SEK. All amounts, unless otherwise stated, are rounded off to the nearest million.

ASSESSMENTS AND ESTIMATES IN THE FINANCIAL STATEMENTS

Preparing the financial statements in accordance with IFRS requires corporate management to make assessments and estimates, and to make assumptions which influence the application of the accounting principles and the carrying amounts of assets, liabilities, income and expenses. The actual result may deviate from these estimates and assessments.

The estimates and assumptions are reviewed regularly. A change to an estimate is recognized in the period in which the change is made if it only affects that period, or in the period the change is made and future periods if it influences the current period and future periods.

Assessments made by the corporate management during the application of IFRS which have a significant impact on the financial statements, along with estimates made which may entail considerable adjustments in subsequent years' financial statements, are described in more detail in Note 38.

CHANGED ACCOUNTING PRINCIPLES

The accounting principles set out below for the Group have been consistently applied for all periods presented in the consolidated financial statements, unless otherwise stated below. The accounting principles for the Group have been applied consistently for reporting and consolidation of Parent Company, subsidiaries, associated companies and joint ventures.

NEW IFRS AND INTERPRETATIONS NOT YET APPLIED
A number of new standards, amendments to standards and interpretations come into force from the 2007 financial year and have not been applied in preparing these financial statements.

IFRS 7 Financial Instruments: Disclosures and related amendments to IAS 1, Presentation of Financial Statements requires comprehensive disclosures on the significance of financial instruments on the company's financial position and results, as well as qualitative and quantitative disclosures on the character and scope of risks. IFRS 7 and related amendments to IAS 1 will entail extensive further disclosures in the Group's 2007 financial reports with regard to the Group's financial instruments and capital.

IFRIC 9 Reassessment of Embedded Derivatives establishes that a reassessment of whether or not embedded derivatives should be distinguished from the host contract may only be carried out if the host contract is changed. IFRIC 9 will be applied from the 2007 financial year but is not expected to have any significant effect on the Group's financial reports.

IFRIC 10 Interim Financial Reporting and Impairment forbids the reversal of an impairment loss recognized in a previous interim period with regard to goodwill, an investment in an equity instrument or in a financial asset recognized at cost. IFRIC 10 will be applied to the Group's financial reports for the year 2007. The interpretation will be subject to prospective application from the point at which the Group began applying the impairment rules of IAS 36 and the measurement rules of IAS 39, i.e. with regard to goodwill and to financial instruments on 1 January 2004. As no such reversal has taken place, the interpretation will have no effect on the Group's financial reports.

REPORTING BY SEGMENT
A segment is a distinguishable part of the Group in the accounts which either supplies products or services (business segment), or goods and services in a certain economic area (geographic area) which are exposed to risks and rewards that differ from other segments. The Group's primary segments are business segments.

Segment information is submitted in accordance with IAS 14 for the Group only.

CLASSIFICATION ETC
Fixed assets and long-term liabilities in the Parent Company and Group exclusively comprise, in all essentials, amounts that are expected to be recovered or paid more than 12 months after the balance sheet date. Current assets and current liabilities in the Parent Company and Group exclusively comprise, in all essentials, amounts that are expected to be recovered or paid within 12 months of the balance sheet date.

BASIS OF CONSOLIDATION
Subsidiaries
Subsidiaries are companies over which V&S Vin & Sprit AB has a controlling influence. Controlling influence entails, directly or indirectly, a right to draw up a company's financial and operational strategies with the aim of achieving economic benefit. Potential shares which entitle holders to votes and can be used or converted without delay are taken into consideration when assessing whether or not a controlling influence exists.

Subsidiaries are accounted for by applying the purchase method. This method means that the acquisition of a subsidiary is viewed as a transaction in which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The Group-wise cost is established by means of an acquisition analysis in connection with the acquisition. The analysis establishes the cost of the shares or operations, the fair value of acquired identifiable assets, along with liabilities and contingent liabilities assumed. The cost of subsidiary shares and operations comprises the total of the fair values on the acquisition date for paid assets, new or assumed liabilities and for issued equity instruments paid in consideration for the acquired net assets, as well as transaction costs directly attributable to the acquisition. In acquisitions where the cost exceeds the net fair value of the acquired assets, assumed liabilities and contingent liabilities, the difference is recognized as goodwill. If the difference is negative, it is reported directly in the income statement.

The financial statements of subsidiaries are included in the consolidated accounts as of the acquisition date until the date when the controlling influence ceases.

Associated companies
Associated companies are the companies in which the Group has a significant influence, but not a controlling influence, over the operational and financial monitoring, usually through a holding of between 20 and 50% of the number of votes. From the time the significant influence is obtained, participations in associated companies are accounted for in the consolidated accounts in accordance with the equity method. The equity method means that the carrying amount of the shares in associated companies in the Group corresponds to the Group's share in the associated companies' equity and goodwill on consolidation and any other remaining value of group wise surplus or deficit value. In the consolidated income statement, 'Shares in associated companies' and joint ventures' results comprises the Group's share in the associated companies' net results before tax and minority adjusted for any depreciation, write-downs or dissolution of acquired surplus or deficit value. Dividends received from the associated company decrease the investment's carrying amount.

Any differences arising at the time of acquisition between the cost for the holding and the owner company's share of the fair value net of the associated company's identifiable assets, liabilities and contingent liabilities, are recognized in accordance with IFRS 3 Business Combinations.

If the Group's share of recognized losses in the associated company exceeds the carrying amount of the shares in the Group, the shares' value is reduced to zero. Offset for losses also takes place against long-term financial dealings without security, the financial significance of which forms part of the owner company's net investment in the associated company. Continued losses are not recognized unless the Group has given guarantees to cover losses arising in the associated company. The equity method is applied until the time the significant influence ceases.

Joint ventures
In terms of accounting, joint ventures are the companies in which the Group has a joint controlling influence over the operational and financial monitoring through contractual agreements with one or more parties. In the consolidated accounts, investments in joint ventures are consolidated in accordance with the equity method. The equity method is described above under Associated companies.

Transactions to be eliminated on consolidation
Intragroup receivables and liabilities, income and expenses and unrealized gains or losses arising from intragroup transactions between Group companies are eliminated in full when preparing the consolidated accounts.

Unrealized gains arising from transactions with associated companies and joint ventures are eliminated to a degree corresponding to the Group's ownership of those companies. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no indication that any write-down is necessary.

FOREIGN CURRENCIES
Transactions in foreign currencies
Transactions in foreign currencies are translated into the functional currency at the exchange rate in force on the transaction date. The functional currency is the currency of the primary economic environment in which the Group's companies carry out their business. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate in force at the balance sheet date. Exchange rate differences arising from the conversions are recognized in the income statement. Non-monetary assets and liabilities recognized at their historical costs are translated at the exchange rate in force at the time of the transaction. Non-monetary assets and liabilities recognized at fair value are converted to the functional currency at the rate in effect at the time of the fair value assessment. The exchange rate fluctuation is then recognized in the same way as for other changes in value regarding the assets or liabilities.

Note 1 continued over

Note 1 contd.

Foreign businesses' financial statements
Assets and liabilities in foreign businesses, including goodwill and other groupwise surplus or deficit values, are translated from the foreign operation's functional currency into the Group's presentation currency, Swedish kronor/SEK, at the exchange rate in force on the balance sheet date. Income and expenses in a foreign operation are translated into SEK at an average exchange rate comprising an approximation of the currency exchange rates in effect at the respective transaction dates. Income and expenses attributable to foreign operations situated in countries with hyperinflation are translated into the functional currency at the exchange rate in force at the balance sheet date. Translation differences arising from currency translation of foreign operations are reported directly in equity as a translation reserve.

Net investment in a foreign business
Translation differences arising in connection with the translation of a foreign net investment and accompanying effects of hedges of the net investments are recognized directly in the translation reserve in equity. On the sale of a foreign operation, the accumulated translation differences attributable to the operation are recognized, less any currency hedging in the consolidated income statement.

In terms of foreign operations, the accumulated translation difference attributable to the period prior to 1 Jan 2004, the date of the transition to IFRS, has been reported as a separate component (translation reserve) in equity.

REVENUE

Sales of goods
Revenue for sales of goods is recognized in the income statement when significant risks and rewards associated with the ownership of the goods are transferred to the buyer. Revenue is not recognized if it is likely that the economic benefits will not accrue to the Group. If there is significant uncertainty regarding payment, accompanying costs or the risk of returns and if the seller retains a commitment in the ongoing administration which is usually associated with ownership, no revenue is recognized. Revenue is recognized at the fair value of what has been received or is expected to be received with deductions for discounts granted.

OPERATING COSTS AND FINANCIAL INCOME AND EXPENSES

Operating leasing agreements
Costs relating to operating lease agreements are recognized in the income statement on a linear basis over the leasing period. Benefits received in connection with the signature of an agreement are recognized in the income statement as a reduction of the lease payments on a linear basis over the leasing period. Contingent rents are charged as expenses in the periods in which they arise.

Financial leasing agreements
The minimum lease payments are apportioned between interest expense and reduction of the outstanding liability. The interest expense is distributed over the lease term so that each accounting period is assigned an amount corresponding to a fixed interest rate for the liability in the respective period. Contingent rents are charged as expenses in the periods in which they arise.

Financial income and expenses
Financial income and expenses comprise interest income on bank account funds, receivables and interest-bearing securities, interest expenses on loans, dividend revenue, exchange rate differences, unrealized and realized gains on financial investments and derivative instruments used in the financial operation.

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Effective interest is the rate at which the net present value of all future inward and outward payments during the anticipated interest period is equal to the carrying amount of the receivable or liability.

Dividend revenues are recognized when the right to receive payment has been established through an agreement (Beam Global Spirits & Wine, Inc.) or in connection with receipt of a dividend from a subsidiary or associated company.

Results from the sale of financial investments are recognized when the risks and rewards associated with ownership of the instruments have in all essentials transferred to the buyer and the Group no longer has control of the instruments.

Interest expenses are charged to the results for the period to which they refer, regardless of how the borrowed funds have been used. The Group does not capitalize interest in the cost of assets.

TAXES

Income taxes consist of current tax and deferred tax. Income taxes are recognized in the income statement unless the underlying transaction is recognized directly in equity, whereby the associated tax effect is recognized in equity.

Current tax is tax due for payment or receipt in respect of the financial year, using tax rates decided or virtually decided upon at the balance sheet date. Adjustment of current tax related to earlier periods is also included.

Deferred taxes are calculated using the balance sheet method, with temporary differences between the carrying amounts and the tax effective values of assets or liabilities as starting point. The following temporary differences are not taken into consideration: temporary differences arising upon the initial recognition of goodwill, the initial recognition of assets and liabilities which are not business combinations and at the time of the transaction do not affect either the accounting or taxable profit and temporary differences related to investments in subsidiaries and associated companies which are not expected to be reversed in the foreseeable future. The amount of deferred tax provided is based on how carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates and regulations decided or virtually decided upon at the balance sheet date.

Deferred tax assets for tax-deductible temporary differences and loss carry forwards are recognized only to the extent it is likely that these items will be able to be utilized. The value of deferred tax assets is derecognized when it is no longer deemed likely that they can be utilized.

Any additional income tax arising from a dividend is recognized at the same time as the dividend is recognized as a liability.

FINANCIAL INSTRUMENTS

Financial instruments recognized as assets in the balance sheet include cash and cash equivalents, accounts receivable, shares and other equity instruments, loan receivables and derivatives. Liabilities and equity include accounts payable, liability and equity instruments issued, debts and derivatives.

Recognition in and derecognition from the balance sheet
A financial asset or financial liability is recognized in the balance sheet when the company becomes party to the instrument's contractual terms. Accounts receivable are recognized in the balance sheet once an invoice has been sent. Liabilities are recognized once the counterparty has completed its task and there is a contractual obligation to pay, even though an invoice may not yet have been received. Accounts payable are recognized once the invoice has been received.

A financial asset is derecognized from the balance sheet once the contractual rights have been realized, have expired or the company loses control over them. The same applies for part of a financial asset. A financial liability is derecognized from the balance sheet once the obligation in the contract has been fulfilled or is in some other way extinguished. The same applies for part of a financial liability.

A financial asset and a financial liability are offset and recognized as a net amount in the balance sheet only when a legal entitlement to offset the amounts is in place, and where there is an intention to balance the items with a net amount or to simultaneously realize the asset and settle the liability.

Acquisitions and sales of financial assets are recognized on the trade date, i.e. the day the company commits to acquiring or selling the assets. The same rule applies for borrowing and lending.

Cash and cash equivalents comprise cash and instantly accessible balances at banks and equivalent institutions as well as short-term investments with a term from the acquisition date of less than three months which are exposed to only a negligible risk of fluctuations.

Classification and measurement
Financial instruments which are not derivatives and which are categorized as financial assets recognized at fair value through the income statement are initially recognized at fair value excluding transaction costs. All other financial instruments which are not derivatives are initially recognized at a cost corresponding to the instrument's fair value with an addition for transaction costs. On first recognition, a financial instrument is classified based on the reason for its purchase. The classification determines how the financial instrument is measured after the first recognition as described below.

Derivative instruments are initially recognized at fair value, which means that any transaction costs are charged in profit or loss for the period. After the initial recognition, derivative instruments are accounted for as described below. If the derivative instrument is used for hedge accounting and to the extent it is effective, changes in value of the derivative instrument are reported in the same line of the income statement as the hedged item. Even if hedge accounting is not applied, increases and decreases in value of the derivative are recognized as income and expenses respectively under operating profit or loss, or under net financial income and expense based on the purpose of using the derivative instrument and whether that use is related to an operating item or a financial item. With hedge accounting, the ineffective portion is recognized in the same way as changes in value of derivatives not used for hedge accounting. If hedge accounting is not applied on the use of interest rate swaps, the interest coupon is recognized as interest and any other change in the value of the interest rate swaps is recognized as other financial income or other financial expense.

Loans and accounts receivables
Loans and accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at the amortized cost. The amortized cost is determined based on the effective interest calculated at the time of acquisition. Accounts receivable are recognized at the amount estimated to be paid, i.e. with a deduction for doubtful receivables.

Available-for-sale financial assets
This category includes financial assets that do not fall within any of the other categories and financial assets which the company has initially chosen to classify in this category. Assets in this category are measured continuously at fair value with changes in value under equity. When the investments are derecognized from the balance sheet, the previously recognized accumulated profit or loss in equity is transferred to the income statement.

V&S's assets in this category essentially comprise unlisted preference shares in Beam Global Spirits & Wine, Inc., for which fair value could not be calculated reliably. See Note 30.

Financial liabilities available for sale
This category comprises financial liabilities available for sale along with derivatives not used for hedge accounting. Liabilities in this category are measured continuously at fair value with changes in value recognized in the income statement.

Other financial liabilities
Loans and other financial liabilities, such as accounts payable, are included in this category. The liabilities are measured at the amortized cost.

Notes 15 (Financial investments), 17 (Other receivables), 19 (Accounts receivable), 24 and 25 (Liabilities) specify in which categories the Group's financial assets and liabilities have been recognized. Recognition of financial income and expenses is also dealt with under 'Operating costs and financial income and expenses' above.

DERIVATIVES AND HEDGE ACCOUNTING
The Group's derivative instruments have been acquired to safeguard against the raw material, interest rate and exchange rate risks to which the Group is exposed. An embedded derivative is recognized separately unless it is closely related to the host contract. Derivatives are initially recognized at fair value, which means that any transaction costs are charged in profit or loss for the period. After the initial recognition, derivative instruments are recognized at fair value and changes in value are recognized as described below.

In order to fulfil the requirements on hedge accounting in accordance with IAS 39, there must be a clear link to the hedged item. Moreover, the hedging must effectively protect the hedged item, the hedging documentation must be drawn up and the effectiveness must be quantifiable. Profits and losses regarding hedge instruments are recognized in the income statement at the same time as profits and losses for the hedged items.

Receivables and liabilities denominated in foreign currency
Foreign exchange forward contracts are used to hedge assets or liabilities against exchange rate risk. Hedge accounting is not used to protect against exchange rate risk, as a financial hedge is reflected in the accounts by both the underlying receivable/liability and the hedging instrument being recognized at the closing day exchange rate, and exchange rate fluctuations are recognized in the income statement. Changes in value regarding operation-related receivables and liabilities are recognized under operating profit, while changes in value regarding financial receivables and liabilities are recognized under net financial income and expense.

Cash flow hedges
The derivative instruments used to hedge future cash flows are recognized in the balance sheet at fair value. The changes in value are charged directly to equity in the hedge reserve. If the hedge relates to a future sale, the changes in value are recognized in equity until the hedged flow is recognized in the income statement, upon which the hedging instrument's accumulated change in value is transferred to the income statement to meet and match the income effects of the hedged transaction there. If the hedge relates to a future purchase, the change in value is recognized in equity until the purchase is either recognized as stock or a fixed asset, whereupon the stock value or fixed asset is adjusted by the accumulated value in equity. The hedged flows can be contracted and forecasted transactions.

Hedging interest duration – cash flow hedges
Interest rate swaps are used to hedge floating interest rate risk. The interest rate swaps are recognized at fair value in the balance sheet. In the income statement, the interest coupon portion is recognized continuously as interest income or interest expense and other changes in value of the interest rate swaps are recognized directly against the hedge reserve under equity, provided that the criteria for hedge accounting and effectiveness are fulfilled.

Fair value hedging
When a hedging instrument is used to hedge a fair value, the derivative is recognized at fair value in the balance sheet and the hedged asset/liability is also recognized at fair value with regard to the risk being hedged. The change in value of the derivative is recognized in the income statement together with the change in value of the hedged item.

Fair values are hedged to secure the value of assets and liabilities which are entered in the balance sheet, but which are not normally measured at fair value in the income statement.

Hedging of net investments
Investments in foreign subsidiaries (net assets including goodwill) have to some extent been hedged through the raising of foreign currency loans or derivatives. At the balance sheet date, these net assets are recognized at the closing rate. Exchange rate differences recognized as income in the Parent Company are eliminated in the consolidated accounts against translation of the net assets in the subsidiary which are recognized under equity. In cases where the hedge is not effective, the ineffective portion is recognized in the income statement.

Note 1 continued over

Note 1 contd.

TANGIBLE FIXED ASSETS

Owned assets

Tangible fixed assets are recognized as assets in the balance sheet if it is probable that the future economic benefits will flow to the company and the cost of the assets can be measured reliably.

Tangible fixed assets are stated in the Group at cost less accumulated depreciation and any write-down. The cost includes the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Examples of directly attributable costs included in the cost are costs for delivery and handling, installation, legal ratification of ownership, consultancy services and legal services. Borrowing costs are not included in the cost for self-constructed fixed assets. Accounting principles for Impairment of assets are shown below.

The cost for self-constructed fixed assets includes costs for materials, employee benefits, other manufacturing costs considered directly attributable to the fixed asset where applicable, as well as estimated costs for dismantling and removing the asset and restoring the site or area where it is located.

Tangible fixed assets comprising parts with different useful lifes are treated as separate components of tangible fixed assets.

The carrying amount for a tangible fixed asset is derecognized from the balance sheet on scrapping or sale, or when no future economic benefits are expected from the use, scrapping or sale of the asset. Gain or loss which may arise from the sale or scrapping of an asset constitutes the difference between the sale price and the asset's carrying amount less direct sales costs. Gain and loss are recognized as other operating income/expense.

Leased assets

IAS 17 is applied for leased assets. Leases are classified in the consolidated accounts as either financial or operating leases. A financial lease is a lease whereby the financial risks and rewards associated with the ownership are in all essentials transferred to the lessee, if this is not the case the lease is an operating lease.

Assets leased in accordance with financial leases have been recognized as assets in the consolidated balance sheet. Obligations to pay future lease payments have been recognized as long-term and current liabilities. The leased assets are depreciated according to plan while the lease payments are recognized as interest and reduction of the liabilities.

For operating leases the lease payment is charged in the income statement over the lease term in accordance with the usage, which may differ from what is de facto paid in leasing fees during the year.

Subsequent costs

Subsequent costs are only added to the cost if it is probable that the future economic benefits associated with the asset will flow to the company and the cost can be measured reliably. All other subsequent costs are expensed in the period they arise.

Whether or not the cost relates to the replacement of identified components, or parts thereof, whereby such costs are set up as an asset, plays a crucial part in the assessment of whether a supplementary cost is added to the cost. Even in cases where new components are constructed, the cost is added to the cost. Any non-depreciated carrying amounts for replaced components, or parts of components, are scrapped and derecognized in connection with replacement. Repairs and maintenance are expensed as they are incurred.

Depreciation principles

Depreciation is carried out on a linear basis over the asset's estimated useful life, land is not depreciated. Leased assets are also depreciated over their estimated useful life or over the agreed lease term, whichever is shorter. The Group applies the component approach, whereby the components' assessed useful life forms the basis for depreciation.

Estimated useful lives:	
– buildings and land improvements	20–67 years
– tanks	20 years
– machinery and technical plant	10 year
– equipment	3–5 year

Depreciation methods used and the residual value and useful life of assets are reviewed at each year-end.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the difference between the cost of the business combination and the fair value of acquired assets, assumed liabilities and contingent liabilities.

In terms of goodwill in business combinations which took place prior to 1 Jan 2004, upon transition to IFRS the Group has not applied IFRS retroactively. Instead, the carrying amount on this date will in future constitute the Group's cost, following an impairment test, see Note 11.

Goodwill is stated at cost less any accumulated write-downs. Goodwill is distributed to cash generating units and is no longer amortized, but instead assessed annually to see if any write-down is necessary (see accounting principle on impairment of assets). Goodwill arising from acquisitions of associated companies and joint venture is included in the carrying amount for participations in associated companies and joint venture.

For acquisitions where the cost is less than the net fair value of the acquired assets and assumed liabilities and contingent liabilities, the difference is recognized directly in the income statement.

Research and development

Costs for research which aims to obtain new scientific or technical knowledge are recognized as costs as they arise.

Costs for development, where the research result or other knowledge is applied to create new or improved products or processes, are recognized as an asset in the balance sheet, provided the product or process is technically and commercially viable and the company has sufficient resources to complete the development and thereafter use or sell the intangible asset. The carrying amount includes all directly attributable expenses: e.g. for materials and services, employee benefits, registration of legal entitlements, amortization of patents and licences, and borrowing costs in accordance with IAS 23. Other development costs are recognized in the income statement as expenses as they arise. Development expenses recognized in the balance sheet are entered at cost less accumulated amortization and any write-down.

Other intangible assets

Other intangible assets acquired by the Group are recognized at cost minus accumulated amortization (see below) and any write-downs (see accounting principle on impairment of assets).

Accrued expenses for internally generated goodwill and internally generated trademarks are recognized in the income statement as they arise.

Subsequent costs

Subsequent costs for intangible assets are only recognized as an asset in the balance sheet if they increase the future economic benefits for the specific asset to which they refer. All other costs are recognized as an expense as they arise.

Amortization

Amortization is charged to the income statement on a linear basis over the intangible assets' estimated useful lives, provided the useful life is not indefinite. Goodwill and intangible assets with an indefinite useful life are impairment tested annually, or as soon as indications arise that the asset in question has decreased in value, to determine whether any write down is necessary. Intangible assets which are amortized are amortized from the date they are available for use. The estimated useful lives are:

– trademarks	5–10 years

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. The cost for inventories is based on the first-in first-out principle (FIFO) and includes costs arising upon acquisition of the inventories and their transport to their current location and condition. For manufactured goods and work in progress, the purchase value includes a reasonable proportion of indirect costs based on normal capacity.

Net realizable value is the estimated sales price in the ordinary course of business, less estimated costs for completing and bringing about a sale.

IMPAIRMENT OF ASSETS/WRITE-DOWNS

Carrying amounts of the Group's assets are reviewed at each balance sheet date to assess whether there is any indication of a need for write-down. IAS 36 is applied in impairment testing for assets other than financial assets which are tested in accordance with IAS 39, assets held for sale and disposal groups which are accounted for in accordance with IFRS 5, inventories, plan assets used to finance employee benefits and deferred tax assets. For the exceptions stated above, the carrying amount is assessed according to the relevant standard.

Impairment tests for tangible and intangible assets, and holdings in subsidiaries, associated companies and joint ventures

If a need for write-down is indicated, the recoverable amount of the asset is calculated in accordance with IAS 36 (see below). The recoverable amount for goodwill, other intangible assets with indefinite useful lives and intangible assets that are not yet ready for use is calculated annually. If largely independent cash flows cannot be established for an individual asset, upon testing whether write-down is necessary, the assets are grouped at the lowest level where largely independent cash flows can be identified – known as a cash generating unit.

A write-down is recognized when an asset's or cash generating unit's carrying amount exceeds the recoverable amount. A write-down is charged to the income statement. Write-down of assets attributable to a cash generating unit is primarily allocated to goodwill. After this a proportional write-down of all other assets included in the unit is carried out.

The recoverable amount is the higher of fair value less costs to sell and value in use. Upon calculating the value in use, future cash flows are discounted at a discount factor that takes into account risk-free interest and the risk associated with the specific asset.

Impairment tests for financial assets

At each reporting date, the company evaluates whether there is objective evidence that any write-down is necessary for a financial asset or group of assets. Objective evidence constitutes observable events that have an adverse impact on the potential to recover the purchase cost, and a significant or long-term decrease in the fair value of a component of a financial investment classified as an available-for-sale financial asset.

At an impairment of an equity instrument classified as an available-for-sale financial asset, any previously recognized accumulated gain or loss in equity is transferred to the income statement.

The recoverable amount of assets classed as held-to-maturity investments and loans and receivables, which are recognized at the amortized cost, is calculated as the present value of future cash flows discounted with the effective interest in force the first time the asset was recognized. Assets with a short term are not discounted. A write-down is charged to the income statement.

Reversal of write-downs

A write-down is reversed if there is an indication that impairment is no longer necessary, and there has been a change in the assumptions which formed the basis of the recoverable amount calculation. However, impairment of goodwill is never reversed. A reversal is only made to the extent that the asset's carrying amount after reversal does not exceed the carrying amount that the asset would have had, with a deduction for amortization, if no write-down had been carried out.

Write-downs of held-to-maturity investments or loans and receivables recognized at amortized cost are reversed if a subsequent increase in the recoverable amount can objectively be attributed to an event that occurred after the write-down was carried out.

Write-downs of equity instruments classified as available-for-sale financial assets, which have previously been charged in the income statement, may not subsequently be reversed through the income statement. The written-down value is the value on which subsequent revaluations are based, which are charged directly to equity. Write-downs of interest-bearing instruments classified as available-for-sale financial assets are reversed through the income statement if the fair value increases and the increase can objectively be attributed to an event which occurred after the write-down was carried out. The recoverable amount can objectively be attributed to an event which occurred after the write-down was carried out.

SHARE CAPITAL

Dividends

Dividends are recognized as liability once the Annual General Meeting has approved the dividend.

PROFIT PER SHARE

Profit per share is calculated from Group profit for the year attributable to Parent Company shareholders and from the weighted average number of shares outstanding during the year. In calculating profit per share after dilution, the profit and average number of shares are adjusted to take account of the effects of dilutive potential ordinary shares, which during report periods derive from convertible bonds and options issued to employees.

EMPLOYEE BENEFITS

Defined contribution plans

Obligations regarding defined contribution plans are recognized as an expense in the income statement as they arise.

Defined benefit plans

The Group's net obligation regarding defined benefit plans is calculated separately for each plan by estimating the future remuneration the employees have earned through their employment both in current and previous periods, this remuneration is discounted to a present value and the fair value of any plan assets is deducted. The discount rate is the interest rate at the balance sheet date on a first-class company bond with a term equal to the Group's pension obligations. When there is no active market for such company bonds, the market rate of interest for government bonds with an equivalent term is used. The calculation is carried out by a qualified actuary using the projected unit credit method.

When the remuneration in a plan is improved, the proportion of the increased remuneration relating to the employees' service in earlier periods is recognized as a cost in the income statement distributed on a linear basis over the average period until the remuneration has been fully earned. If the remuneration is fully earned, a cost is recognized directly in the income statement.

The corridor rule is applied and entails recognition of the proportion of the accumulated actuarial gains and losses exceeding 10% of the higher of the obligations' present value and the plan assets' fair value in the income statement for the expected average remaining employment period of employees covered by the plan. Otherwise actuarial gains and losses are not taken into account.

When the calculation leads to an asset for the Group, the asset's carrying amount is limited to the net of the unrecognized actuarial losses and unrecognized costs for service during earlier periods and the present value of future repayments from the plan or reduced future payments into the plan.

Note 1 continued over

Note 1 contd.

When there is a difference between how the pension cost is established in the legal entity and the Group, a provision or receivable is recognized regarding special employer's contribution based on this difference. The provision or receivable is not calculated at the present value.

For information about the Group's defined benefit plans, see Note 26.

Remuneration on termination of employment
A cost for remuneration in connection with termination of employment for employees is recognized only if the company is demonstrably obliged in a formal detailed plan to terminate employment ahead of the normal point in time, with no realistic possibility of withdrawal. When remuneration is paid as an incentive for voluntary departure, a cost is charged if it is likely that the offer will be accepted and the number of employees accepting the offer can be reliably estimated.

PROVISIONS

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimation of the amount can be made. When the effect of the timing of the payment is important, provisions are calculated by discounting the expected future cash flow at a pre-tax interest rate which reflects current market assessments of the time value of money and, if applicable, the risks associated with the liability.

Restructuring
A provision for restructuring is recognized when the Group has established a detailed, formal restructuring plan, and the restructuring has either begun or been publicly announced. No provision is made for future operating costs.

FIXED ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

A fixed asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through use.

Immediately prior to classification as held for sale, the carrying amount of the assets (and all assets and liabilities in a disposal group) must be determined in accordance with applicable standards. Upon first classification as held for sale, fixed assets held for sale and disposal groups are recognized at the lower of carrying amount and fair value less costs to sell. According to IFRS 5.5, certain balance sheet items are exempt from the measurement provisions in IFRS 5. For each increase in fair value with a deduction for costs to sell a gain is recognized, although not exceeding an amount equal to previous impairments.

Losses resulting from decreases in value upon first classification as held for sale are included in the income statement, even if it is a revaluation. The same applies for gains or losses in subsequent revaluations.

A discontinued operation is a component of a company's operation which represents an independent business segment or a major operation in a geographical area, or a subsidiary acquired solely with the intention of resale.

Classification as a discontinued operation takes place upon disposal or at an earlier point when the operation fulfils the criteria for being classified as held for sale. A disposal group to be discontinued can also qualify as a discontinued operation if it fulfils the size criteria specified above.

CONTINGENT LIABILITIES

A contingent liability is recognized when there is a possible obligation arising from past events and the existence of which is substantiated only by one or more uncertain future events, or when there is an obligation which is not recognized as a liability or provision because it is not likely that an outflow of resources will be needed.

THE PARENT COMPANY'S ACCOUNTING PRINCIPLES

The Parent Company has prepared its Annual Report in accordance with the Swedish Annual Accounts Act (1995:1554) and Recommendation RR 32:05 of the Swedish Financial Accounting Standards Council, on Accounting for Legal Entities. Statements issued by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force for publicly listed companies are also applied. RR 32:05 means that the Parent Company in the annual report for the legal entity shall apply all EU-approved IFRS standards and statements as far as possible within the framework of the Annual Accounts Act, taking into consideration the relationship between accounting and taxation. The recommendation stipulates which exceptions and additions to IFRS shall be applied. The Parent Company does not apply IAS 39 due to the relationship between accounting and taxation with regard to the hedging clause pertaining to foreign currencies in Section 14 §8 of the Swedish Income Tax Act. Therefore point 71 of Recommendation RR 32:06 of the Swedish Financial Accounting Standards Council is applied in advance, which entails that all financial instruments are measured based on cost in accordance with the Annual Accounts Act.

Changed accounting principles
The Parent Company's amended accounting principles have been reported in accordance with the regulations of IAS 8, but taking into account the special transition rules in Recommendation RR 32:05.

Differences between the Group's and Parent Company's accounting principles
The differences between the Group's and Parent Company's accounting principles are shown below. The accounting principles shown below for the Parent Company have been applied consistently to all periods presented in the Parent Company's financial reports.

Subsidiaries
Investments in subsidiaries are accounted for in the Parent Company in accordance with the cost method. Only dividends received are recognized as income, providing they originate from profit earned after the acquisition. Dividends exceeding this earned profit are regarded as a repayment of the investment and reduce the shares' carrying amount.

Revenue
Financial instruments
The Parent Company does not apply the valuation rules of IAS 39, although other previous information on financial instruments also applies in the Parent Company. In the Parent Company financial fixed assets are measured at cost less any write-down, and financial current assets at the lower of cost or net realizable value.

Hedge accounting
Derivatives not used for hedging are recognized in the Parent Company at the lower of cost or net realizable value. Accounting for derivatives used for hedging is guided by the hedged item. This means that only accrued coupon interest is continually recognized in the income statement and balance sheet, and that the derivative is otherwise treated as an off balance item, i.e. the change in fair value due to altered market interest rates is not recognized. Balance sheet items hedged against changes in value due to altered exchange rates are initially recognized at the forward contract's spot rate, and the forward contract's interest rate difference is allocated linearly across the contract's term and recognized in the income statement on an ongoing basis.

Anticipated dividends
Anticipated dividends from subsidiaries are recognized if the Parent Company has the sole right to determine the size of the dividend, and the Parent Company has decided on the size of the dividend before publishing its financial reports.

Tangible fixed assets
Tangible fixed assets in the Parent Company are stated at cost less accumulated depreciation and any write-down in the same way as for the Group but with an addition for any revaluations.

Leased assets
In the Parent Company, all lease agreements are accounted for in accordance with the regulations on operating leases.

Intangible fixed assets
Amortization
Amortization of goodwill and trademarks is carried out on a linear basis over the asset's estimated useful life.

Estimated useful lives:

– goodwill	5 years
– trademarks	5–20 years

Research and development
In the Parent Company, all expenses for development are recognized as a cost in the income statement.

Employee benefits
Defined benefit plans
The Parent Company uses different grounds for calculating defined benefit plans to those given in IAS 19. The Parent Company follows the Law on safeguarding of pension commitments and the Financial Supervisory Authority's rules as this is a prerequisite for entitlement to tax deduction. The most significant differences compared with the rules in IAS 19 are how the discount rate is established, that the defined benefit obligation is calculated based on the current pay level without assumptions about future salary increases, and that all actuarial gains and losses are recognized in the income statement as they arise.

Taxes
Untaxed reserves including deferred tax liability are recognized in the Parent Company. In the consolidated accounts however, untaxed reserves are divided into deferred tax liability and equity.

Group contributions and shareholders' contributions to legal entities
The company accounts for group contribution and shareholders' contributions in accordance with the statement from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force. Shareholders' contributions are recognized directly in equity by the recipient and set up as an asset in shares and holdings by the issuer, to the extent that write-downs are not required. Group contributions are reported according to their financial significance. This means that Group contributions made with the aim of minimizing the Group's total tax are recognized directly against retained earnings after deductions for their current tax effect.

Group contributions comparable with a dividend are recognized as a dividend. This means that group contributions received and their current tax effect are recognized in the income statement. Group contributions paid and their current tax effect are recognized directly against retained earnings.

Group contributions comparable with shareholders' contributions are recognized, taking into consideration the current tax effect, by the recipient directly against retained earnings. The issuer reports the Group contribution and its current tax effect as an investment in participations in Group companies, to the extent write-down is not required.

NOTE 2 DISTRIBUTION OF REVENUES

Net sales in the Group and Parent Company comprise, in all essentials, of revenue from the sale of goods.

NOTE 3 REPORTING BY SEGMENT

Segment information is presented in respect of the Group's business areas and geographical areas. The Group's internal reporting system is structured based on monitoring return on the Group's goods and services, which is why the business units are the primary basis for division.

Internal prices between the Group's different segments are set based on the 'arm's length' principle, i.e. between parties that are independent of each other, well-informed and have an interest in ensuring the transactions take place.

The segments' profit, assets and liabilities include directly attributable items as well as items that can be divided among the segments in a reasonable, reliable way. Unallocated items mainly comprise head office costs. Assets and liabilities not divided by segment are cash and cash equivalents, interest-bearing liabilities and deferred tax liabilities.

The segments' investments in tangible and intangible fixed assets include all investments except for investment in expendable equipment and equipment of minor value.

Business areas
The business areas comprise the Group's primary segment reporting format. The Group comprises the following business areas:

V&S Absolut Spirits produces and markets the Group's international spirits brands. In addition to ABSOLUT VODKA these include Level Vodka, Frïs Vodka, Plymouth Gin and Cruzan Rum.

V&S Distillers produces and sells spirits with mainly local or regional distribution in Northern Europe. The product portfolio for 2006 encompasses a broad range of both traditional and more modern products in Sweden, Denmark, Finland and Poland, as well as a slightly more limited range in Germany.

V&S Wine sells wine in the Nordic countries and Estonia. Sales include own products and agency brands alike, and the product portfolio encompasses table wines, quality wines, sparkling wines, fortified wines, fruit-based wines and special products such as mulled wine.

Other operations include Future Brands and Maxxium, as well as those parts of Cruzan International, Inc. not related to Cruzan Rum.

Geographical areas
The Group's segments are divided into the following geographical areas:

Sweden
Other Nordic, Baltic states
Other European countries, including CIS, the Middle East and Africa
North America: USA and Canada
Central and South America
Asia and the Pacific region

Geographical areas comprise the Group's secondary segment reporting format. The information presented regarding the segments' revenue refers to the geographical areas grouped according to where the customers are located. The information regarding the segments' assets and investments in tangible and intangible fixed assets during the period is based on the geographical areas grouped according to where the assets are located.

Note 3 continued over

Note 3 contd.

BUSINESS AREAS

GROUP

SEK millions	V&S Absolut Spirits 2006	V&S Absolut Spirits 2005	V&S Distillers 2006	V&S Distillers 2005	V&S Wine 2006	V&S Wine 2005	Other areas of operation 2006	Other areas of operation 2005	Elimininations 2006	Elimininations 2005	Group 2006	Group 2005
External net sales	5,713.6	5,230.5	1,925.0	1,994.7	2,159.2	2,211.7	547.6	141.2	–	–	10,345.4	9,578.1
Internal net sales	168.4	171.1	22.5	37.8	0.2	0.3	–	–	–191.1	–209.2	–	–
Total net sales	**5,882.0**	**5,401.6**	**1,947.5**	**2,032.5**	**2,159.4**	**2,212.0**	**547.6**	**141.2**	**–191.1**	**–209.2**	**10,345.4**	**9,578.1**
Shares in associated companies' and joint ventures' results											238.3	213.9
Other operating revenues											312.8	155.5
											10,896.5	**9,947.5**
Operating profit by business area	1,914.0	1,756.9	284.2	263.8	111.7	72.0	45.2	72.1	4.8	–16.5	2,359.9	2,148.3
Unallocated expenses											–85.0	–79.2
Operating profit											**2,274.9**	**2,069.1**
Net financial income and expenses											–280.9	–133.7
Tax expense for the year											–416.8	–429.7
Profit for the year											**1,577.2**	**1,505.7**
Assets	9,490.0	7,628.0	3,849.8	4,019.6	1,616.8	2,002.8	791.8	745.4			15,748.4	14,395.8
Unallocated assets											2,125.7	2,725.6
Total assets											**17,874.1**	**17,121.4**
Liabilities	1,434.7	1,389.1	951.9	924.3	620.4	917.1	115.1	207.5			3,122.1	3,438.0
Unallocated liabilities											7,504.6	6,797.1
Total liabilities											**10,626.7**	**10,235.1**
Investment	208.8	1,085.0	76.2	170.7	11.2	0.5	16.5	2.6			312.7	1,258.8
Depreciation and amortization/write-down	94.6	79.8	71.2	76.2	15.9	20.7	82.7	13.0			264.4	189.7

In terms of organizational structure, V&S is divided into business areas, and the primary financial means of control used to run the operation are operating profit and return on capital employed. For reasons of efficiency, the Group has co-ordinated important procedures that impact cash flow, such as logistics, the accounts receivable ledger, the accounts payable ledger and excise tax procedures. It therefore makes more sense for V&S to monitor and control the cash flow centrally at Group level than to do so at business area level.

The segment reporting described above is based on V&S's division into business areas and therefore encompasses the essential financial means of control V&S uses in monitoring the performance of its business areas. As cash flow by business area is not included in these means of control, that information has not been included in the segment reporting.

PARENT COMPANY

SEK millions	V&S Absolut Spirits 2006	V&S Absolut Spirits 2005	V&S Distillers 2006	V&S Distillers 2005	V&S Wine 2006	V&S Wine 2005	Other areas of operation 2006	Other areas of operation 2005	Parent Company 2006	Parent Company 2005
Net sales	4,249.1	4,252.0	491,9	504.1	910,3	890.7	2.4	–	5,653.7	5 646,8

External sales income based on customer location is shown below:

GEOGRAPHICAL AREAS

GROUP

SEK millions	2006	2005
Sweden	1,405.0	1,364.7
Other Nordic, Baltic states	2,064.7	2,146.6
Other European countries, including CIS, the Middle East and Africa	1,573.1	1,497.6
North America	4,822.4	4,101.0
Central and South America	223.6	201.0
Asia and the Pacific region	256.6	267.2
	10,345.4	**9,578.1**

The carrying amounts of assets and the periods investments in tangible and intangible fixed assets based on the location of the Group's assets are shown below:

SEK millions	Assets 2006	Assets 2005	Investment 2006	Investment 2005
Sweden	10,419.4	8,541.0	202.4	172.0
Other Nordic, Baltic states	2,114.6	2,097.1	76.9	95.9
North America	3,545.7	4,804.6	25.0	968.2
Other regions	1,794.4	1,678.7	8.4	22.7
	17,874.1	**17,121.4**	**312.7**	**1,258.8**

NOTE 4 BUSINESS COMBINATIONS

On 23 March 2006 the Group acquired the remaining 36.4% of shares in Cruzan International, Inc. for SEK 658.2 million in a cash purchase. The company produces and distributes alcoholic beverages. Following the acquisition, V&S has a 100% holding in Cruzan International, Inc.

	Fair value recognized in Group
Intangible fixed assets	110.1
Minority interest	540.3
Provision for deferred tax	7.8
Purchase price paid	**658.2**

NOTE 5 OTHER OPERATING REVENUES

	GROUP		PARENT COMPANY	
	2006	2005	**2006**	2005
Freight costs billed to customers	7.5	16.6	4.2	10.3
Capital gain from divestment of business	–	57.8	–	–
Profit from sale of fixed assets	148.0	7.9	143.7	1.2
Rental income	4.9	4.4	1.2	1.5
Energy contribution	0.1	1.7	–	0.5
Billed services	4.5	3.5	47.3	49.3
Other	147.8	63.6	10.7	25.2
	312.8	**155.5**	**207.1**	**88.0**

NOTE 6 EMPLOYEES AND COSTS OF EMPLOYEES

Average number of employees

	2006	of whom men, %	2005	of whom, men, %
Parent company				
Sweden	747	65	769	67
France	3	67	19	47
Total in Parent Company	**750**	**65**	**788**	**66**
Subsidiaries				
Sweden	–	–	1	0
Czech Republic	–	–	27	41
Denmark	538	65	696	64
Finland	195	57	182	58
Estonia	18	61	17	65
Germany	26	54	32	56
United Kingdom	14	43	21	43
Norway	17	47	18	50
France	1	0	3	33
China	3	67	–	–
Chile	–	–	5	20
USA	425	65	135	61
Poland	317	52	320	52
Total in subsidiaries	**1,554**	**61**	**1,457**	**59**
Group total	**2,304**	**62**	**2,245**	**62**

Gender distribution of the Board and corporate management

	2006 Women, %	2005 Women, %
Parent Company		
Board	18	18
Other senior management	11	13
Group total		
Board	13	13
Other senior management	11	13

Salaries, other remuneration and social security expenses

	GROUP		PARENT COMPANY	
SEK millions	**2006**	2005	**2006**	2005
Salaries	990.8	807.2	316.2	301.8
Social security contributions	163.9	146.4	105.3	105.3
Pension expenses	143.3	102.5	58.8	64.5
Other employees expenses	109.4	103,9	48.5	52.1
	1,407.4	**1,160.0**	**528.8**	**523.7**

	2006		2005	
SEK millions	Salaries and remunerations	Social security expenses	Salaries and remunerations	Social security expenses
Parent Company (of which pension expenses[1])	316.2	165.8 (58.8)	301.8	169.6 (64.5)
Subsidiaries (of which pension expenses)	674.6	143.1 (84.5)	505.4	79.1 (38.0)
Group total (of which pension expenses[2])	**990.8**	**308.9 (143.3)**	**807.2**	**248.7 (102.5)**

1 Of the Parent Company's pension expenses, SEK 2.1 (1.9) mn refers to the CEO, Executive VP and Board of the Group, including special employer's contributions. The Company's outstanding pension obligations to these parties amount to SEK 2.4 (2.4) mn.

2 Of the Group pension expenses, SEK 17.3 (3.2) mn refers to the Board, CEO and Executive VP. The Company's outstanding pension obligations to these parties amount to SEK 2.4 (2.4) mn.

Salaries and other remuneration by country, and by Board members etc. and other employees

	2006		2005	
SEK millions	Board, CEO, EVP	Other employees	Board, CEO, EVP	Other employees
Parent Company				
Sweden (of which bonus)	7.3 (0.1)	308.9 (13.1)	7.1 (0.1)	289.2 (4.9)
France	–	–	–	5,5
Parent company, total (of which bonus)	**7.3 (0.1)**	**308.9 (13.1)**	**7.1 (0.1)**	**294.7 (4.9)**
Subsidiaries				
Sweden	–	–	0.8	–
Denmark (of which bonus)	1.5 (0.1)	233.0 (3.5)	3.4 (0.1)	271.4 (3.4)
Finland (of which bonus)	1.2 (–)	63.8 (3.2)	1.1 (0.1)	60.7 (2.2)
Poland (of which bonus)	1.5 (–)	42.1 (3,5)	1.0 (–)	41.0 (–)
USA (of which bonus)	30.6 (7.7)	271.5 (24.4)	5,3 (2.8)	74,6 (16.5)
Other (of which bonus)	6.0 (0.1)	23.4 (0.7)	6.4 (–)	39.7 (1.0)
Subsidiaries total (of which bonus)	**40.8 (7.9)**	**633.8 (35.3)**	**18.0 (3.0)**	**487.4 (23.1)**
Group total (of which bonus)	**48.1 (8.0)**	**942.7 (48.4)**	**25.1 (3.1)**	**782.1 (28.0)**

Of salary and other remuneration paid to other employees in the Group, SEK 11.2 (10.6) mn refers to senior management other than the Board, CEO and Executive VP.

Note 6 continued over

Note 6 contd.

Sick leave in Parent Company

%	2006	2005
Total sick leave as a percentage of ordinary working hours	4.9	5.9
Percentage of total sick leave relating to continuous sick leave of 60 days or more	57.5	56.3
Total sick leave as a percentage of each group's ordinary working hours		
Sick leave by gender:		
Men	4.7	5.0
Women	5.2	7.8
Sick leave by age:		
29 years or younger	3.6	5.6
30–49 years	4.2	4.6
50 years or older	6.8	8.4

For information on post-employment benefits and share-based payment, see Note 26 Employee benefits.

NOTE 7 FEES AND REIMBURSEMENT PAID TO AUDITORS

	GROUP		PARENT COMPANY	
SEK millions	2006	2005	2006	2005
KPMG				
Audit assignments	3.9	4.4	1.5	1.5
Other assignments	5.7	4.3	2.3	0.7
Ernst & Young				
Other assignments	0.2	0.6	0.2	0.6
PricewaterhouseCoopers				
Other assignments	3.2	0.7	3.2	0.7
Other				
Audit assignments	2.6	1.1	—	—
Other assignments	1.6	1.0	—	—
	17.2	**12.1**	**7.2**	**3.5**

"Audit assignments" refers to the audit of the annual report and book-keeping records as well as a review of the administration by the CEO and Board of Directors, other tasks that are the responsibility of the Company's auditors, and other advice or assistance brought about by observations from such audits or performance of such other tasks. All other work is "other assignments".

NOTE 8 NET FINANCIAL INCOME AND EXPENSE

	GROUP	
SEK millions	2006	2005
Interest income	16.3	50.7
Dividends	97.8	83.8
Other	–5.7	–
Financial income	**108.4**	**134.5**
Interest expenses	–382.0	–258.7
Interest portion of pension expenses for the year	–	–0.1
Net changes in value at revaluation of financial assets/liabilities	–7.3	–4.0
Net exchange rate fluctuation	–	–5.4
Financial expenses	**–389.3**	**–268.2**
Net financial income and expenses	**–280.9**	**–133.7**

	Profit from investments in Group Companies		Profit from other securities and other receivables which are fixed assets	
SEK millions	2006	2005	2006	2005
Parent Company				
Dividend	70.8	72.3	97.8	83.2
Capital gain/loss from sale of shares	2.6	60.4	–	–
Write-downs	–134.2	–	–	–
	–60.8	**132.7**	**97.8**	**83.2**

	Interest income and similar items		Interest expenses and similar items	
SEK millions	2006	2005	2006	2005
Parent Company				
Interest income, Group companies	86.4	31.3	–	–
Interest income, other	9.6	23.6	–	–
Exchange rate gains	498.8	–	–	–
Interest expenses, Group companies	–	–	–45.5	–20.7
Interest portion of pension expense for the year	–	–	–	–0.1
Interest expenses, other	–	–	–363.6	–247.0
Exchange rate loss	–	–	–	–276.4
	594.8	**54.9**	**–409.1**	**–544.2**

NOTE 9 APPROPRIATIONS

	PARENT COMPANY	
SEK millions	2006	2005
Difference between depreciation/amortization recognized and according to plan		
– Trademarks	–508.4	6.8
– Buildings and land improvements	–	114.8
– Machinery and equipment	50.2	–37.7
Tax allocation reserve for the year	–398.9	–312.3
Tax allocation reserve, reversal for the year	313.3	219.1
	–543.8	**–9.3**

NOTE 10 TAXES

Tax recognized in income statement

	GROUP		PARENT COMPANY	
SEK millions	2006	2005	2006	2005
Current tax expense (–)/ tax income (+)				
Tax expense for the period	–558.9	–473.6	–335.1	–279.6
Adjustment for taxes related to previous years	–0.7	–1.0	–	–
	–559.6	**–474.6**	**–335.1**	**–279.6**
Deferred tax expense (–)/ tax income (+)				
Deferred tax on temporary differences	88.8	50.6	1.4	–27.1
Deferred tax income on tax value in loss carry forwards capitalized during the year	84.9	14.5	–	–
	173.7	**65.1**	**1.4**	**–27.1**
Taxes on share of profits in associated companies'	–30.9	–20.2	–	–
Total recognized tax expense	**–416.8**	**–429.7**	**–333.7**	**–306.7**

Reconciliation of effective tax

SEK millions	GROUP 2006 (%)	2006	2005 (%)	2005
Profit before taxes		1,994.0		1,935.4
Tax in line with the applicable tax rate for the Parent Company	28.0	–558.3	28.0	–541.9
Effect of other tax rates for foreign affiliates	5.8	–115.7	2.1	–40.6
Non-deductible expenses	2.8	–55.8	1.9	–36.8
Non-taxable revenues	–1.9	37.9	–4.5	87.1
Non-deductible exchange rate fluctations on assets	6.3	–125.6	–6.7	129.7
Increase in loss carry forwards without equivalent capitalization of deferred taxes	–	–	0.8	–15.5
Utilization of loss carry forwards previously not recognized	–1.4	27.9	–	–
Taxes related to previous years	–	–	0.1	–1.9
Standard interest on tax allocation reserve	0.7	–14.0	0.9	–17.4
Change in initial tax base	–19.6	390.8	–	–
Other	0.2	–4.0	–0.4	7.6
Recognized effective tax	**28.9**	**–416.8**	**22.2**	**–429.7**

Taxes are calculated based on the national tax rate in each country.

SEK millions	PARENT COMPANY 2006 (%)	2006	2005 (%)	2005
Profit before taxes		1,155.3		1,218.4
Tax in line with the applicable tax rate for the Parent Company	28.0	–323.4	28.0	–341.1
Non-deductible expenses	4.0	–46.2	3.4	–41.3
Non-taxable revenues	–4.2	48.6	–7.6	92.7
Standard interest on tax allocation reserve	1.3	–15.0	1.4	–17.0
Other	–0.2	2.3	–	–
Recognized effective tax	**28.9**	**–333.7**	**25.2**	**–306.7**

Tax items recognized directly in equity

SEK millions	GROUP 2006	2005
Exchange rate difference in foreign currency hedging	65.1	83.4
Acquisition/sale of businesses	–7.1	–43.6
Exchange rate differences	7.3	–3.5
Hedging reserve	–13.8	12.8
	51.5	**49.1**

Tax recognized in balance sheet

Recognized deferred tax assets and liabilities relate to the following:

GROUP	Deferred tax assets		Deferred tax liability		Net	
SEK millions	2006	2005	2006	2005	2006	2005
Intangible assets	–	–	281.2	661.8	281.2	661.8
Buildings and land improvements	–2.4	–	63.0	52.7	60.6	52.7
Machinery and equipment	–17.1	–0.5	264.5	100.2	247.4	99.7
Inventory	–70.9	–77.9	5.0	3.6	–65.9	–74.3
Accounts receivables	–3.3	–4.1	70.8	19.4	67.5	15.3
Interest-bearing liabilities	–6.2	–3.5	565.1	472.7	558.9	469.2
Other provisions	–16.5	–14.2	3.0	3.1	–13.5	–11.1
Tax allocation reserve	–	–	652.0	629.7	652.0	629.7
Other	–59.9	–60.3	–	–	–59.9	–60.3
Loss carry forwards	–150.5	–82.6	–	–	–150.5	–82.6
Tax assets/ liabilities	**–326.8**	**–243.1**	**1,904.6**	**1,943.2**	**1,577.8**	**1,700.1**
Offset	–269.4	60.2	269.4	–60.2		
Net tax assets/ liabilities	**–596,2**	**–182,9**	**2,174.0**	**1,883.0**	**1,577.8**	**1,700.1**

PARENT COMPANY	Deferred tax assets		Deferred tax liability		Net	
SEK millions	2006	2005	2006	2005	2006	2005
Buildings and land improvements	–	–	32.2	30.2	32.2	30.2
Pension provisions	–14.8	–9.2	–	–	–14.8	–9.2
Other	–0.7	–2.9	–	–	–0.7	–2.9
Tax assets/ liabilities	**–15.5**	**–12.1**	**32.2**	**30.2**	**16.7**	**18.1**

Of the deferred tax liabilities in the Group of SEK 2,174.0 (1,883.0) mn, SEK 264.5 (100.2) mn refers to untaxed reserves in the form of accumulated excess depreciation.

Deferred tax assets not recognized

Deferred tax assets have not been recognized in the income statement and balance sheet for the following:

SEK millions	GROUP 2006	2005
Taxable losses	27.1	142.0
	27.1	**142.0**

Taxable loss carry forwards relate to foreign subsidiaries. Deferred tax assets has not been recognized for this item, because it seems unlikely that the Group will use it to offset against taxable profit within a reasonable time frame. Of the non-recognized taxable loss carry forwards, SEK 4.2 mn has no expiration date, while SEK 22.9 mn expires in 2010 or there after.

Change in deferred tax in temporary differences and loss carry forwards:

GROUP SEK millions	Opening balance	Recognized in income	Recognized in equity	Acquisition/ sale of business	Closing Balance
2006					
Intangible assets	661.8	–364.4	–23.1	6.9	281.2
Buildings and land improvement	52.7	9.5	–1.6	–	60.6
Machinery and equipment	99.7	149.5	–1.8	–	247.4
Inventory	–74.3	8.0	0.4	–	–65.9
Accounts receivable	15.3	52.0	0.2	–	67.5
Interest-bearing liabilities	469.2	23.8	65.9	–	558.9
Other provisions	–11.1	-2.7	0.1	0.2	–13.5
Tax allocation reserve	629.7	22.3	–	–	652.0
Other	–60.3	13.2	–12.8	–	–59.9
Loss carry forwards	–82.6	–84.9	17.0	–	–150.5
	1,700.1	**–173.7**	**44.3**	**7.1**	**1,577.8**
2005					
Intangible assets	487.8	56.3	2.4	115.3	661.8
Buildings and land improvement	53.3	–8.5	0.8	7.1	52.7
Machinery and equipment	89.1	9.6	1.4	–0.4	99.7
Inventory	–72.0	–0.3	0.8	–2.8	–74.3
Accounts receivable	51.4	–31.9	0.1	–4.3	15.3
Interest bearing liabilities	617.5	–62.3	–83.5	–2.5	469.2
Other provisions	–10.1	–0.7	–0.3	–	–11.1
Tax allocation reserve	603.6	26.1	–	–	629.7
Other	–6.3	–38.9	–13.5	–1.6	–60.3
Loss carry forwards	–	–14.5	–0.9	–67.2	–82.6
	1,814.3	**–65.1**	**–92.7**	**43.6**	**1,700.1**

Note 10 continued over

Note 10 contd.

PARENT COMPANY

SEK millions	Opening balance	Recognized in income	Recognized in equity	Closing balance
2006				
Buildings and land improvements	30.2	2.0	–	32.2
Pension provisions	–9.2	–5.6	–	–14.8
Other	–2.9	2.2	–	–0.7
	18.1	–1.4	–	**16.7**
2005				
Buildings and land improvements	–	30.2	–	30.2
Pension provisions	–9.0	–0.2	–	–9.2
Other	–	–2.9	–	–2.9
	–9.0	**27.1**	–	**18.1**

NOTE 11 INTANGIBLE FIXED ASSETS

GROUP

SEK millions	Trademarks with definite useful lives	Trademarks with indefinite useful lives	Goodwill	Total
2006				
Accumulated costs				
Opening balance (excluding emission rights)	12.4	2,903.7	1,191.7	4,107.8
Acquisitions	–	90.0	–	90.0
Reclassifications	7.1	–7.1	–	–
Sales and disposals	–	–5.1	–	–5.1
Reclassification to assets held for sale	–1.8	–	–	–1.8
Exchange rate differences	–	–124.0	–34.6	–158.6
Emission rights				1.2
Closing balance	**17.7**	**2,857.5**	**1,157.1**	**4,033.5**
Accumulated amortization				
Opening balance	–11.1	–	–	–11.1
Reclassification to assets held for sale	0.7	–	–	0.7
Amortization for the year	–3.9	–	–	–3.9
Closing balance	**–14.3**	**–**	**–**	**–14.3**
Accumulated write-downs				
Write-downs for the year	–	–	–10.4	–10.4
Closing balance	**–**	**–**	**–10.4**	**–10.4**
Carrying amounts				
On 1 Jan 06	1.3	2,903.7	1,191.7	4,097.5
On 31 Dec 06	3.4	2,857.5	1,146.7	4,008.8
2005				
Accumulated costs				
Opening balance	12.4	1,669.7	1,172.4	2,854.5
Acquired with business combinations	–	7,2	–	7,2
Other investments	–	1 159,9	–	1 159,9
Sales and disposals	–	–	–18,4	–18,4
Exchange rate difference	–	66.9	37.7	104.6
Emission rights	–	–	–	0.8
Closing balance	**12.4**	**2,903.7**	**1,191.7**	**4,108.6**
Accumulated costs				
Opening balance	–8.2	–	–	–8.2
Amortization for the year	–2.9	–	–	–2.9
Closing balance	**–11.1**	**–**	**–**	**–11.1**
Carrying amounts				
On 1 Jan 05	4.2	1,669.7	1,172.4	2,846.3
On 31 Dec 05	1.3	2,903.7	1,191.7	4,097.5

PARENT COMPANY

SEK millions	Trademarks	Goodwill	Totalt
2006			
Accumulated costs			
Opening balance (excluding emission rights)	175.8	274.1	449.9
Acquisitions	1,392.5	–	1,392.5
Sales and disposals	–1.2	–	–1.2
Emission rights			1.2
Closing balance	**1,567.1**	**274.1**	**1,842.4**
Accumulated amortization			
Opening balance	–60.6	–121.2	–181.8
Sales and disposals	0.5	–	0.5
Amortization for the year	–36.4	–14.0	–50.4
Closing balance	**–96.5**	**–135.2**	**–231.7**
Carrying amounts			
On 1 Jan 06	115.2	152.9	268.9
On 31 Dec 06	1,470.6	138.9	1,610.7
2005			
Accumlated costs			
Opening balance	262.7	274.1	536.8
Sales and disposals	–86.9	–	–86.9
Emission rights			0.8
Closing balance	**175.8**	**274.1**	**450.7**
Accumulated amortization			
Opening balance	–61.9	–107.2	–169.1
Sales and disposals	15.6	–	15.6
Amortization for the year	–14.3	–14.0	–28.3
Closing balance	**–60.6**	**–121.2**	**–181.8**
Accumulated write-downs			
Opening balance	–71.3	–	–71.3
Sales and disposals	71.3	–	71.3
Closing balance	**–**	**–**	**–**
arrying amounts			
On 1 Jan 05	129.5	166.9	296.4
On 31 Dec 05	115.2	152.9	268.9

Carrying amounts of trademarks with indefinite useful lives

	GROUP	
SEK millions	**2006**	2005
Cruzan Rum	1,162.1	1,167.1
Aalborg Akvavit	781.0	802.2
Gammel Dansk	334.7	343.6
Plymouth Gin	251.1	257.4
Malteserkreuz	213.2	218.6
Other trademarks	115.4	114.8
	2,857.5	**2,903.7**

Cash generating units with recognized goodwill values

	GROUP	
SEK millions	**2006**	2005
V&S Danmark A/S	490.2	506.5
V&S Finland Oy	466.9	482.5
V&S Vin & Sprit AB	163.4	162.0
Units with no significant goodwill values, overall	26.2	40.7
	1,146.7	**1,191.7**

Trademarks with definite useful lives
Trademarks with finite useful lives are amortized on a linear basis over the useful life, which varries between 5–10 years. The La Chasse trademark, part of the V&S Wine business area, is amortized over 5 years.

Trademarks with indefinite useful lives
Most of V&S's acquired trademarks are deemed to have indefinite useful lives as several of the now established spirits brands were created more than 100 years ago. The trademarks Cruzan Rum and Plymouth Gin are part of the V&S Absolut Spirits business area. The Danish brands Aalborg Akvavit and Gammel Dansk, as well as the German Malteserkreuz, come under the V&S Distillers business area. Other acquired trademarks with indefinite useful lives include Lord Calvert and Frïs Vodka.

Goodwill
The goodwill attributed to the cash generating unit V&S Danmark refers both to the V&S Wine business area SEK 92 mn (96) and the V&S Distillers business area SEK 398 mn (411). The goodwill attributed to V&S Finland refers to the V&S Wine business area, and the goodwill attributed to V&S Vin & Sprit AB relates to the V&S Absolut Spirits business area.

Other intangible assets
Intangible assets include allocated, unutilized emission rights at a value of SEK 1.2 (0.8) million. 11,738 emission rights were received in 2005, and a further 12,319 in 2006. The estimated utilization in December 2006 amounted to 3,693 and they have been measured at average cost. The emission rights and related provisions have been measured at market value on the balance sheet date. No emission rights have been bought or sold. Any emission rights received in 2005–2007 and not utilized by 30 April 2008 are annulled by the state.

Impairment test of assets not amortized
Trademarks with indefinite useful lives and goodwill are no longer amortized in the consolidated accounts. Instead an impairment test is conducted annually, or if there is an indication of an impairment, to ensure that the carrying amount of the asset in question does not exceed the recoverable amount.

Impairment tests in 2006 were based on estimates of value in use of all trademarks (bar two) that have indefinite useful lives. Impairment tests for V&S's cash generating units to which goodwill has been attributed were also based on estimates of value in use.

The values in use are based on cash flow forecasts for a total of 50 years, of which the first three are based on the three-year business plan established by the management for each trademark or cash generating unit. The cash flows forecast after the first three years were based on an annual growth rate in line with inflation, according to a harmonized index for retail prices. For trademarks the rate of inflation on the market where the brand is sold has been used (1.0–1.5%), as the cash generating units correspond to a particular country the national rate of inflation has been used (1–3%). The forecasted cash flows have been computed at present value with a discount rate of 8% before tax. This discount rate equals to a WACC (Weighted Average Cost of Capital) at an equity/assets ratio of 35% and a required return of 10.5%, which are the financial goals defined for V&S by its owner.

For the Plymouth Gin and Cruzan Rum brands, the 2006 impairment test was based on fair value less costs to sell. Fair value has been calculated on the price paid, expressed in volume sold, on acquisition of comparable trademarks, multiplied by the company's volume in the past year.

In the 2006 impairment test, the goodwill attributed to the cash generating unit V&S Eesti has been written down. This was done because a large proportion of the company's sales have consisted of agency sales of brewery products, which ceased at the year-end. The write-down of SEK 10.4 million has been recognized under other operations in the reporting by segment.

The calculated recoverable amount for the Lord Calvert trademark, which has a carrying amount of SEK 104 million in the Group, amounted to SEK 105 million in the year's impairment test. This means that a slight change in the assumptions on which the calculation is founded could necessitate a write-down. The value in use is based on cash flow forecasts for a total of 50 years, of which the first three are founded on the business plan established by the management. Cash flows after the first three years are based on an annual growth rate of 1.2%. No impairment test based on fair value has been carried out as the trademark is local.

Otherwise no reasonable changes in the important assumptions are deemed to lead to the estimated recoverable amount being less than the carrying amount, as the estimated recoverable amounts are considerably higher than the carrying amounts.

NOTE 12 TANGIBLE FIXED ASSETS

GROUP

SEK millions	Buildings, land and land improvements	Machinery and technical plants	Equipments, tools and installations	Constructions in progress	Total
2006					
Accumulated costs					
Opening balance	1,258.0	1,984.0	222.6	175.7	3,640.3
Acquisitions	5.1	16.5	10.8	280.3	312.7
Reclassifications	59.9	65.0	33.5	–152.2	6.2
Sales and disposals	–96.5	–71.2	–56.6	–2.4	–226.7
Reclassifications to assets held for sale	–130.7	–446.0	–	–0.5	–577.2
Exchange rate differences	–44.8	–34.0	–5.0	–2.9	–86.7
Closing balance	**1,051.0**	**1,514.3**	**205.3**	**298.0**	**3,068.6**
Accumulated depreciation					
Opening balance	–382.6	–1,045.3	–144.6	–	–1,572.5
Depreciation for the year	–35.6	–127.1	–29.7	–	–192.4
Reclassifications	–	12.5	–18.7	–	–6.2
Sales and disposals	48.0	48.0	49.8	–	145.8
Reclassifications to assets held for sale	46.1	372.4	–	–	418.5
Exchange rate differences	8.4	13.3	3.4	–	25.1
Closing balance	**–315.7**	**–726.2**	**–139.8**	**–**	**–1,181.7**
Accumulated write-downs					
Opening balance	–6.4	–5.3	–	–	–11.7
Write-down for the year	–21.9	–35.8	–	–	–57.7
Exchange rate differences	–0.1	0.2	–	–	0.1
Closing balance	**–28.4**	**–40.9**	**–**	**–**	**–69.3**
Carrying amounts					
On 1 Jan 06	869.0	933.4	78.0	175.7	2,056.1
On 31 Dec 06	706.9	747.2	65.5	298.0	1,817.6
2005					
Accumulated costs					
Opening balance	1,000.7	1,751.5	223.0	180.2	3,155.4
Acquired with business combinations	128.9	98.7	–	7.9	235.5
Other acquisitions	86.4	29.6	23.2	143.8	283.0
Reclassifications	24.8	129.0	1.6	–155.4	–
Sales and disposals	–27.3	–60.6	–35.1	–	–123.0
Exchange rate differences	44.5	35.8	9.9	–0.8	89.4
Closing balance	**1,258.0**	**1,984.0**	**222.6**	**175.7**	**3,640.3**
Accumulated depreciation					
Opening balance	–335.3	–942.3	–135.5	–	–1,413.1
Depreciation for the year	–35.3	–122.0	–29.5	–	–186.8
Sales and disposals	6.4	39.3	27.6	–	73.3
Exchange rate differences	–18.4	–20.3	–7.2	–	–45.9
Closing balance	**–382.6**	**–1,045.3**	**–144.6**	**–**	**–1,572.5**
Accumulated write-downs					
Opening balance	–5.9	–18.0	–	–	–23.9
Sales and disposals	–	12.9	–	–	12.9
Exchange rate differences	–0.5	–0.2	–	–	–0.7
Closing balance	**–6.4**	**–5.3**	**–**	**–**	**–11.7**
Carrying amounts					
On 1 Jan 05	659.5	791.2	87.5	180.2	1,718.4
On 31 Dec 05	869.0	933.4	78.0	175.7	2,056.1

PARENT COMPANY

SEK millions	Buildings, lands and land improvements	Machinery and technical plants	Equipment, tools and installations	Construction in progress	Total
2006					
Accumulated costs					
Opening balance	540.0	1,154.6	103.3	109.5	1,907.4
Acquisitions	0.7	1.2	2.0	198.4	202.3
Reclassifications	3.5	39.6	–	–43.1	–
Sales and disposals	–55.6	–8.7	–10.0	–2.3	–76.6
Closing balance	**488.6**	**1,186.7**	**95.3**	**262.4**	**2,033.1**
Accumulated depreciation					
Opening balance	–185.0	–693.2	–74.3	–	–952.5
Depreciation for the year	–12.3	–71.7	–10.4	–	–94.4
Sales and disposals	29.6	6.9	9.3	–	45.8
Closing balance	**–167.7**	**–758.0**	**–75.4**	**–**	**–1,001.1**
Accumulated write-downs					
Write-down for the year	–21.9	–35.8	–	–	–57.7
Closing balance	**–21.9**	**–35.8**	**–**	**–**	**–57.7**
Carrying amounts					
On 1 Jan 06	355.0	461.4	29.0	109.5	954.9
On 31 Dec 06	299.0	392.9	19.9	262.5	974.3
2005					
Accumulated costs					
Opening balance	497.8	1,167.4	105.3	13.4	1,783.9
Acquisitions	17.7	0.3	5.2	97.3	120.5
Reclassifications	10.8	–9.6	–	–1.2	–
Sales and disposals	–2.4	–5.4	–9.2	–	–17.0
Exchange rate differences	16.1	1.9	2.0	–	20.0
Closing balance	**540.0**	**1,154.6**	**103.3**	**109.5**	**1,907.4**
Accumulated depreciation					
Opening balance	–165.4	–632.8	–69.4	–	–867.6
Depreciation for the year	–12.3	–64.3	–12.6	–	–89.2
Sales and disposals	0.7	5.4	9.5	–	15.6
Exchange rate differences	–8.0	–1.5	–1.8	–	–11.3
Closing balance	**–185.0**	**–693.2**	**–74.3**	**–**	**–952.5**
Carrying amounts					
On 1 Jan 05	332.4	534.6	35.9	13.4	916.3
On 31 Jan 05	355.0	461.4	29.0	109.5	954.9

Tax-assessed value

	PARENT COMPANY **31 Dec 06**	31 Dec 05
Tax-assessed value, buildings (Sweden)	151.2	122.0
Tax-assessed value, land (Sweden)	15.5	10.4

Tax-assessed values of the Group's buildings and land in Sweden corresponds with the Parent Company's values.

Leased production equipment
The Group leases production equipment through a financial lease agreement. When the lease come to an end, the Group has the option of buying the equipment at a pre-determined price. There are also option to extend the lease. The lease contain interest fluctuation clauses. On 31 Dec 2006 the value of the leased assets was SEK 117.1 (128.6) mn. The leased assets act as security for the leasing liabilities. (See note 24.)

Tangible fixed assets under construction
In 2005, a project began to build a new bottling plant in Åhus. The aim is to supplement the existing plant and increase capacity. It is planned for completion in 2007.

NOTE 13 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES CONSOLIDATED IN ACCORDANCE WITH THE EQUITY METHOD

	GROUP	
SEK millions	**2006**	2005
Carrying amount at beginning of year	3,110.1	2,721.8
Share of profit in associated companies and joint ventures[1]	207.3	192.0
Dividend	–173.7	–210.9
Translation difference	–268.1	387.2
Acquisitions	–	20.0
Carrying amount at year-end	**2,875.6**	**3,110.1**

1 Share of profit in associated companies' and joint ventures' results before tax and minority.

Below is a specification of Group amounts regarding the owned proportion of revenue, profit, assets and liabilities.

SEK millions	Country	Revenue	Profit	Assets	Liabilities	Equity	Share of equity in %
2006							
Associated companies							
Maxxium Worldwide B.V.	Netherlands	3,981.9	61.3	2,980.4	2,242.3	738.1	25.0
Premier Wines & Spirits, Ltd	US Virgin Islands	59.2	1.1	28.5	20.0	8.5	45.0
Antillean Liquors	Netherlands	17.9	0.5	6.8	4.4	2.4	37.5
Joint ventures							
Future Brands Llc	USA	509.4	143.8	177.5	109.9	67.6	49.0
		4,568.4	**206.7**	**3,193.2**	**2,376.6**	**816.6**	
2005							
Associated companies							
Maxxium Worldwide B.V.	Netherlands	3,688.2	36.4	2,481.9	1,730.6	751.3	25.0
Premier Wines & Spirits, Ltd	US Virgin Islands	15.6	0.5	27.0	18.2	8.8	45.0
Antillean Liquors	Netherlands	5.8	0.7	7.4	4.1	3.3	37.5
Joint ventures							
Future Brands Llc	USA	467.5	155.3	177.2	121.4	55.8	49.0
		4,177.1	**192.9**	**2,693.5**	**1,874.3**	**819.2**	

Investments in associated companies and joint ventures on 31 Dec 2006 include goodwill of SEK 115.0 (115.0) mn and distribution rights of SEK 1,935.2 (2,167.8) mn.

NOTE 14 RECEIVABLES FROM GROUP COMPANIES AND ASSOCIATED COMPANIES

	Receivables from Group Companies		Receivables from associated companies	
SEK millions	**2006**	2005	**2006**	2005
Accumulated costs				
At the beginning of the year	2,066.9	1,248.5	174.2	143.2
Additional receivables	2,805.4	3,225.8	896.7	774.0
Settled receivables	–3,518.6	–2,407.4	–802.3	–743.0
	1,353.7	**2,066.9**	**268.6**	**174.2**

NOTE 15 FINANCIAL INVESTMENTS

	GROUP	
SEK millions	**2006**	2005
Financial investments which are fixed assets		
Available-for-sale financial assets		
Shares and participations	3,521.4	2,842.2
	3,521.4	**2,842.2**

The majority of the financial investments refer to SEK 3,514.8 (2,835.8) mn invested in shares in Beam Global Spirits & Wine, Inc. The value of the holding in Beam is an asset in USD. A hedge exists in the borrowing in the corresponding currency which is described in Note 1 and Note 30.

All investments consist of non-listed securities for which a reliable fair value has not been ascertainable, and they have therefore been valued at cost.

NOTE 16 OTHER LONG-TERM HOLDINGS OF SECURITIES

SEK millions	PARENT COMPANY 2006	2005
Accumulated costs		
At the beginning of the year	3,803.9	3,804.1
Acquisition	1,126.6	–
Sales	–	–0.2
	4,930.5	**3,803.9**

The holding consists of shares in Beam Global Spirits & Wine, Inc. and is an asset in USD. Acquisition during the year comprise of a new share issue. A hedge exists in the borrowing in the corresponding currency which is described in Note 1 and Note 30.

NOTE 17 LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

SEK millions	GROUP 2006	2005
Long-term receivables which are fixed assets		
Derivatives held for hedging	–	36.7
Other	2.2	8.4
	2.2	**45.1**
Other receivables which are current assets		
Receivables from associated companies	304.1	207.3
Derivatives held for hedging	172.6	4.4
Value-added tax	3.5	4.7
Other	104.9	70.6
	585.1	**287.0**

NOTE 18 INVENTORIES

	GROUP 2006	GROUP 2005	PARENT COMPANY 2006	PARENT COMPANY 2005
Raw materials and supplies	398.7	450.5	161.8	176.3
Semi-finished products	47.9	28.6	0.7	0.4
Finished goods and merchandise	508.3	809.6	183.4	197.5
	954.9	**1 288.7**	**345.9**	**374.2**

The Group figure for cost of goods sold includes write-down of inventories of SEK 30.8 (30.0) mn.

The Parent Company figure for cost of goods sold includes write-down of inventories of SEK 11.8 (10.1) mn.

NOTE 19 ACCOUNTS RECEIVABLE

Accounts receivable are recognized taking into account bad debt losses during the year, which amount to SEK 3.5 (8.3) mn.

NOTE 20 PREPAID EXPENSES AND ACCRUED REVENUES

SEK millions	GROUP 2006	GROUP 2005	PARENT COMPANY 2006	PARENT COMPANY 2005
Prepaid insurance premiums	7.3	4.6	4.4	1.2
Prepaid rent	10.5	12.9	9.9	11.4
Prepaid pension payments	4.3	5.1	4.3	4.8
Prepaid marketing expenses	0.3	3.1	0.1	2.2
Prepaid IS/IT expenses	9.2	8.8	9.2	8.8
Accrued interest income	29.8	21.2	29.8	21.2
Unrealized gain on electricity derivatives	4.5	8.6	4.5	8.6
Unrealized gain on foreign exchange forward contracts	221.9	43.3	221.9	48.5
Other items	65.5	83.3	23.1	20.9
	353.3	**190.9**	**307.2**	**127.6**

NOTE 21 ASSETS HELD FOR SALE

The operation within Cruzan International, Inc., under the name Florida Distillers is held for sale, and its assets and liabilities are therefore stated separately in the balance sheet.

SEK millions	GROUP 2006
Assets	
Intangible fixed assets	1.1
Tangible fixed assets	158.7
Inventory	165.0
Accounts receivable	82.9
Other fixed assets	19.3
	427.0
Liabilities	
Accounts payable	55.5
Other liabilities	9.4
	64.9

NOTE 22 EQUITY

Specification of capital item reserves	GROUP 2006	2005
Translation reserve		
Opening translation reserve	134.2	–71.8
Exchange rate difference for the year	–471.3	615.6
Less hedge of currency risk in foreign business	363.3	–409.6
	26.2	**134.2**
Hedging reserve		
Opening hedging reserve	0.7	33.6
Recognized directly in equity	44.9	–32.9
	45.6	**0.7**
Total reserves		
Opening reserves	134.9	–38.2
Change in translation reserve for the year	–108.0	206.0
Change in hedging reserve for the year	44.9	–32.9
	71.8	**134.9**

Note 22 continued over

Note 22 contd.

Registered share capital on 31 Dec 2006 encompassed 500 shares (500). The company's shares have a nominal amount of SEK 1 mn each.

Shareholders are entitled to a dividend set on an ongoing basis, and each share entitles the holder to one vote at the Annual General Meeting. All shares have the same entitlement to the Company's remaining net assets.

Translation reserve
The translation reserve encompasses all exchange rate differences arising from translation of financial statements of foreign businesses that has been prepared in a currency other that the currency in which the Group's financial statements are presented. The Parent Company and the Group present their financial statements in SEK. The translation reserve also includes exchange rate differences which arise in the revaluation of liabilities recognized as hedging instruments for a net investment in a foreign business.

Hedging reserve
The hedging reserve encompasses the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet taken place.

Dividend
After the balance sheet date, the Board proposed the following dividend. The dividend has not yet been decided and there are no income tax consequences.

SEK millions	**2006**	2005
SEK 1,420 000 per share (SEK 1 200 000)	710.0	600.0
Proposed dividend per share	1.42	1.20
Recognized dividend per share	1.20	0.80

PARENT COMPANY

Restricted funds
Restricted funds may not be reduced through dividends.

Legal reserve
The aim of the legal reserve is to save a proportion of the net profit which is not used to cover loss brought forward.

Non-restricted equity
Retained earnings
Comprises the previous year's non-restricted equity after any provisions for the legal reserve and after any dividend has been paid. Together with net profit for the year and any fair value reserve it makes up non-restricted equity, i.e. the sum that is available to be paid as a dividend to shareholders.

NOTE 23 PROFIT PER SHARE

SEK millions	**2006**	2005
Net profit for the year attributable to Parent Company shareholders	1,571.9	1,501.3
Number of outstanding shares	500	500
Profit per share	3.1	3.0

There is only one kind of share in the company.

NOTE 24 INTEREST-BEARING LIABILITIES

The note contains information about the Groups contractual terms regarding interest-bearing liabilities. For further information about the Groups exposure to interest rate risk and currency risk, see Note 30.

	GROUP	
SEK millions	**2006**	2005
Long-term liabilities		
Bond loans	3,518.5	4,653.7
Financial lease liabilities	126.3	130.8
	3,644.8	**4,784.5**
Current liabilities		
Commercial Paper Programmes	1,309.5	400.0
Short-term part of bond loans	599.6	485.7
Accrued interest	18.9	20.1
Short-term part of financial lease liabilities	4.5	4.3
	1,932.8	**910.1**

Terms and payback periods

Bond loans
See Note 30 for liability specification.

No formal collateral has been given for the loans. However, the credit agreements do stipulate the standard requirements that the Group's equity must amount to a certain minimum along with restrictions on raising new loans and the sale or pledging of the company's assets. The loans have mainly been used to finance the Group's shareholding in Beam Global Spirits & Wine, Inc. for investments in the new distribution solution implemented in 2001, and for acquisition of foreign subsidiaries. These loans are recognized in accordance with hedge accounting in the Parent Company accounts, which is why they have been stated at the original cost. Hedge accounting is also used for these loans in the consolidated accounts. If the liabilities were translated at the rate in force on the balance sheet date, they would be SEK 2,302 (2,559) mn lower in the Parent Company. The difference has been recognized less deferred tax in equity.

Financial lease liabilities
Financial lease liabilities fall due for payment as follows:

GROUP

	Minimum lease payments **2006**	Interest **2006**	Principal **2006**
Within one year	8.2	3.7	4.5
Between one and five years	33.8	13.5	20.3
Longer than five years	127.1	21.0	106.1
	169.1	**38.2**	**130.9**
	2005	2005	2005
Within one year	8.2	3.9	4.3
Between one and five years	33.4	14.1	19.3
Longer than five years	135.7	24.2	111.5
	177.3	**42.2**	**135.1**

An agreement was entered into during 2003 to finance distillation equipment through a lease. The plant was completed in early 2005 and the lease began on 1 April 2005. The agreement applies to a 16-year lease at a total cost of SEK 137 mn. The lease has been classified as financial lease.

NOTE 25 LIABILITIES TO CREDIT INSTITUTIONS

SEK millions	PARENT COMPANY 2006	2005
Long-term liabilities		
Bond loans	5,609.9	6,456.0
	5,609.9	**6,456.0**
Current liabilities		
Accrued interest	19.4	20.4
Commercial Paper Programme	1,309.0	400.0
Short-term part of bond loans	810.5	595.7
	2,138.9	**1,016.1**

NOTE 26 EMPLOYEE BENEFITS

SEK millions	GROUP 2006	2005
Present value of fully or partially funded obligations	258.9	245.0
Fair value of plan assets	–139.7	–144.5
Net fully or partially funded obligations	119.2	100.5
Present value of non-funded obligations	6.3	10.8
Present value of net obligation	**125.5**	**111.3**
Unrecognized actuarial gains (+) and losses (–)	–36.1	–26.7
Net recognized regarding defined benefit plans	**89.4**	**84.6**

The net amount is recognized under provisions for pensions in the balance sheet. The entire net amount refers to obligations in Sweden.

Defined benefit plans
The Group has two defined benefit plans which provide remuneration to employees when they retire.

The first plan is the regular pension plan with a pension at the age of 65 and follows the ITP supplementary pension for salaried employees. With the ITP plan, the old-age pension is earned from the age of 28 until retirement at the age of 65. The pension is co-ordinated with previous earnings in similar or equivalent pension plans from previous employers. The period of service required to receive maximum ITP is 360 months. With a full service period an old-age pension gives the following:

10% of salary up to 7.5 basic amounts
65% of salary between 7.5 and 20 basic amounts
32,5% of salary between 20 and 30 basic amounts

If the full pensionable service is not achieved, the pension will be reduced in proportion to the period lacking. Pensionable salary comprises the ordinary monthly salary including payment for holiday taken in cash and the value of free food. Bonuses from the V&S bonus programme do not affect pensionable income.

For employees with salaries exceeding 10 basic amounts, the employer and employee may agree to apply a different pension solution – known as alternative rule – for the portion of salary between 7.5 and 30 basic amounts, rather than the main rule (above). Upon application of this alternative rule, the employee can instead take out a different pension solution for the equivalent premium cost the ITP plan would have entailed.

The other pension plan, a direct pension solution with retirement at 60 years, has been agreed with a few senior executives. This pension benefit entitles the employee to retire at the age of 60. The pension benefit amounts to 70% of salary and is paid from the age of 60 until the age of 65, when the ordinary ITP plan (see above) begins. The pension is accumulated every year up to the age of 65, using the same percentages Alecta applies to adjust maturing pensions.

The pension paid from the age of 60 is earned linearly from the time the pension promise is given to the employee until the age of 60 when it is fully earned. The pension is currently safeguarded in the balance sheet. The pensionable salary is calculated in the same way as with the ITP plan. Bonuses from the V&S bonus programme are not pensionable income.

Changes to the net obligation for defined benefit plans recognized in the balance sheet

SEK millions	GROUP 2006	2005
Net obligation for defined benefit plans on 1 Jan	84.6	85.0
Payments made	–14.8	–10.9
Cost recognized in income statement	13.2	10.8
Compensation	10.3	–
Redemption of obligations	–3.9	–0.3
Net obligation for defined benefit plans on 31 Dec	**89.4**	**84.6**

Cost recognized in income statement

SEK millions	GROUP 2006	2005
Costs for service during current period	11.3	8.2
Interest expense on obligation	9.2	10.2
Expexted return on plan assets	–7.6	–7.6
Actuarial loss recognized during the year	0.3	–
Total net cost in income statement	**13.2**	**10.8**

Assumptions for defined benefit obligations
The most significant actuarial assumptions on the balance sheet date (expressed as weighted averages).

SEK millions	GROUP 2006	2005
Discount rate on 31 Dec	3.8%	3.8%
Expexted return on plan assets 31 Dec	5.5%	5.5%
Future salary increase	3.0%	3.0%
Future pension increase	2.0%	2.0%

Parent Company pension obligation secured by PRI Fund

SEK millions	2006	2005
PRI	110.8	114.6
Less: Capital in the pension fund	–130.8	–134.0
	–20.0	**–19.4**
Of which credit insured via FPG/PRI	110.8	114.6

Parent Company pension obligation in accordance with Law on safe-guarding of pension commitments, and other pension commitments

SEK millions	2006	2005
PRI	54.5	45.7
Other pensions	43.3	47.7
	97.8	**93.4**
Of which credit insured via FPG/PRI	54.5	45.7

SEK millions	PARENT COMPANY 2006	2005
Capital value of pension obligations		
Pension obligations regarding retirements arranged by the company, 1 Jan	208.0	212.3
+ Cost exc. interest expense charged to profit	12.1	9.2
+ Interest expense	6.2	6.1
- Pension payments	–14.6	–16.9
+/– Effects of redemption and acquired/sold operations	–3.1	–2.7
Pension obligations regarding retirements arranged by the company, 31 Dec	208.6	208.0

Note 26 continued over

Note 26 contd.

Fair value regarding separable assets		
Fair value 1 Jan	134.0	132.2
+ Return on separable assets	4.8	9.6
+/– Payment to/from pension fund or equivalent	–8.0	–7.8
Fair value 31 Dec	**130.8**	**134.0**

Net pension obligations 31 Dec		
+ Capital value of pension obligation	208.6	208.0
– Fair value regarding separable assets	–130.8	–134.0
+ Surplus in separable assets	20.0	19.4
= Net amount recognized in balance sheet regarding pension obligations	**97.8**	**93.4**

Costs relating to pensions		
Pensions arranged by the company		
+ Cost exc. interest expense charged to profit	12.1	9.2
+ Interest expense	6.2	6.1
– Return on separable assets	–4.8	–9.6
+/– Effects of redemption etc.	–3.1	–2.7
= Costs relating to pensions arranged by the company	**10.4**	**3.0**
Pensions through insurance		
+ Insurance premiums	38.7	45.9
	49.1	**48.9**
+ Tax on returns from pension funds	2.1	2.9
+ Special employer's contribution on pension expenses	10.4	10.5
+ Cost of credit insurance	0.3	0.4
= Pension expenses for the year	**61.9**	**62.7**
+/– Expenses covered by surplus in separable assets/increase in surplus in separable assets	–3.1	1.8
Recognized net expenses relating to pensions	**58.8**	**64.5**

Defined contribution plans

In Sweden the Group has defined contribution pension plans for employees which are financed wholly by the company.

Overseas there are defined contribution plans which are wholly or partly financed by the subsidiaries. Payment for these plans takes place on an ongoing basis in accordance with the rules of the plan in question.

The Group's pension expenses are reported in Note 6.

BENEFITS FOR SENIOR MANAGEMENT

Principles

Fees are paid to the Board Chairman and Board members elected at the AGM in accordance with the AGM's decision. Extra fees may be payable for committee work. Employee representatives receive a full Board fee, and their deputies a half fee. Remuneration to the CEO comprises a monthly salary and pension premiums, and other benefits.

Remuneration to other senior management comprises a basic salary, a variable proportion, other benefits and a pension provision in the form of premiums or entered as a liability. The benefits are in addition to basic salary in all cases. "Other senior management" refers to those people who make up or have made up the Group Management during the financial year, in addition to the CEO.

Compensation to departing senior management is stated as a total.

The variable proportion comprises bonuses and is based on results in relation to set goals.

Remuneration and other benefits during the year

Board

The Chairman of the Board has received a board fee of SEK 325 thousand and the other 10 members of the Board and employee representatives have received a total of SEK 1,221 thousand in board fees.

CEO

The CEO of V&S Vin & Sprit AB (publ) has a fixed monthly salary of SEK 289 thousand. In addition, there is a pension premium equalling 30% of the pensionable salary. Pensionable salary is defined as 12.2 monthly salaries plus the value of free lunches. The CEO's salary does not include a variable proportion. "Other benefits" refers to use of company car, free lunches and health insurance.

Other senior management

For other senior management, a total of SEK 13,576 thousand has been paid out in salaries and remuneration. The variable proportion, which is included, amounts to SEK 617 thousand. Added to this is the value of company cars, free lunches and other benefits which total SEK 813 thousand in all.

None of the above figures include the variable proportion of remuneration for 2006. A total provision of approximately SEK 1.0 mn has been made based on preliminary calculations. The variable proportion of remuneration relating to 2005 which was paid in 2006 is presented in the table below.

Remuneration and other benefits during the year

SEK thousand	Basic salary, Board fee	Variable remuneration	Other benefits	Social security expenses	Pensions expense	Total	Pension age
Chairman of the Board	324.5	–	–	105.2	–	429.7	
Other Board members	1,220.6	–	–	395.7	–	1,616.3	
Bengt Baron, CEO	3,515.1	–	111.1	1,175.6	1,319.2	6,121.0	65
Rolf Cassergren, EVP	2,288.3	112.2	95.6	809.2	818.3	4,123.6	60
Mats Andersson	1,277.5	82.2	112.2	477.2	406.9	2,356.0	65
Jacob Broberg	1,129.4	24.1	120.0	412.9	468.3	2,154.7	65
Ketil Eriksen	2,402.3	116.7	95.4	847.6	498.6	3,960.6	65
Anders Carlson[1]	1,599.0	–	75.4	542.9	430.6	2,647.9	65
Ola Salmén	1,532.8	101.2	96.7	561.1	981.5	3,273.3	60
Mikael Spångberg	1,410.2	92.1	85.6	514.8	487.2	2,589.9	65
Gunilla Winlund	1,319.8	88.0	131.9	499.2	1,307.6	3,346.5	60
	18,019.5	**616.5**	**923.9**	**6,341.4**	**6,718.2**	**32,619.5**	

[1] Part of year

Bonuses
The CEO is not paid a bonus. For other senior management the bonus is based half on the Group's operating profit and half on individual goals. The maximum bonus payable is one month's salary.

Pensions
The CEO has a fee-based pension solution, whereby the cost of the pension comprises 30% of the pensionable salary. The pension age is 65 years.

Other senior management within the Group management are guaranteed pension benefits through the ITP plan with a pension from the age of 65. This pension plan also offers the opportunity for senior management to choose alternative pension solutions. In some cases there are also pension benefits with a pension from the age of 60 (see table below). The pension amounts to 70% of salary between the ages of 60 and 65. These pension obligations are recognized under "Provisions for pensions" in the balance sheet. The total cost of pension solutions for senior management was SEK 6,718 thousand. The benefit of a pension at 60 years of age is accrued on a linear basis and is vested.

Severance pay
The company and CEO have agreed a mutual period of notice of 6 months. Upon notice of termination by the employer, the CEO is entitled to a severance pay corresponding to 18 months' salary, including the period of notice. Any remuneration from subsequent employment will be subtracted from the severance pay.

The company and other senior management have agreed a mutual period of notice of 6 months. Upon notice of termination by the employer, the employees are entitled to a severance pay corresponding to 12-24 months' salary, including the period of notice. Any remuneration from subsequent employment will be subtracted from the severance pay.

Preparation and decision-making
For the CEO's salary and terms of employment, a remuneration committee appointed by the Board prepares and proposes pay and other terms of employment for the CEO, after which the proposal passes to the Board for a decision.

For other senior management, the CEO decides the pay and other condions of employment, based on market conditions and in accordance with guidelines from the state regarding terms of employment for senior executives in state-owned companies.

NOTE 27 PROVISIONS

GROUP SEK millions	Restructuring measures	Returnable bottles	Disputes	Other	Total
Opening balance 2006	9.4	2.7	1.1	1.9	15.1
Provisions during the period	18.9	–	–	0.3	19.2
Amounts claimed during the period	–8.2	–	–0.7	–0.8	–9.7
Unused amounts reversed during the period	–0.9	–0.5	–0.4	–1.0	–2.8
Exchange rate differences	–0.3	–0.1	–	–0.1	–0.5
	18.9	**2.1**	**–**	**0.3**	**21.3**

PARENT COMPANY SEK millions	Restructuring measures	Total
Opening balance 2006	–	–
Provisions during the period	18.9	18.9
	18.9	**18.9**

SEK millions	GROUP **2006**	2005
Provisions which are long-term liabilities		
Costs for restructuring measures	17.7	2.9
Estimated debts to customers for returnable bottles outstanding	2.1	2.7
Others	0.1	–
Provision for disputes in progress	–	0.8
	19.9	**6.4**
Provisions which are current liabilities		
Costs for restructuring measures	1.2	6.5
Provision for disputes in progress	–	0.3
Other	0.2	1.9
	1.4	**8.7**

SEK millions	PARENT COMPANY **2006**	2005
Provisions which are long-term liabilities		
Costs for restructuring measures	17.7	–
	17.7	**–**
Provisions which are current liabilities		
Costs for restructuring measures	1.2	–
	1.2	**–**

Provisions for restructuring
A restructuring provision has been made during the year as V&S is considering closing the factory in Sundsvall. A provision for an onerous contract has also been made. These provisions are recognized in the Parent Company figures. Last year's restructuring provision for business area V&S Distillers' transition to a function-based organization has been utilized during the year.

Provisions for returnable bottles
The provision is an estimated outstanding liability for returnable bottles in Denmark.

Provisions for disputes
Ongoing disputes are assessed individually on an ongoing basis.

NOTE 28 OTHER LIABILITIES

SEK millions	GROUP 2006	GROUP 2005	PARENT COMPANY 2006	PARENT COMPANY 2005
Liabilities to associated companies	21.8	20.7	–	–
Liabilities to joint venture	91.4	–	–	–
Excise taxes	604.6	623.7	309.6	336.6
Value-added tax	196.6	236.1	75.8	91.1
Other items	244.9	310.7	25.4	24.1
	1,159.3	**1,191.2**	**410.8**	**451.8**

NOTE 29 ACCRUED EXPENSES AND PREPAID REVENUES

SEK millions	GROUP 2006	GROUP 2005	PARENT COMPANY 2006	PARENT COMPANY 2005
Holiday pay and related liability	40.8	56.2	25.7	24.7
Accrued employees costs	39.4	39.2	6.2	7.3
Accrued social security expenses	27.6	23.8	16.2	15.0
Severance pay and related liability	10.0	21.7	3.6	14.9
Marketing expenses and royalty	266.2	267.6	151.3	127.0
Unrealized losses on foreign exchange forward contracts	103.0	48.0	102.3	48.0
Accrued interest	4.9	5.7	–	–
Other items	225.2	162.0	55.2	74.8
	717.1	**624.2**	**360.5**	**311.7**

NOTE 30 FINANCIAL RISKS AND POLICIES

The Group's financial risks are controlled and dealt with by a central treasury department. The principles for its work are described in a treasury policy set out by the Board of Directors. The following briefly outlines the policy, as well as some of the more important financial risks and how they are dealt with.

CURRENCY RISKS

V&S is an international Group operating in several countries, and its products are sold in many different parts of the world. Because of this the Group is affected by the way global currencies fluctuate in relation to each other. The currency exposure is normally divided into two main groups: transaction exposure and translation exposure.

Transaction exposure

Transaction exposure originates partly in the Group's commercial flows, i.e. cross-border sales and purchases, and partly in financial flows. The Group's treasury policy states that forecasted flows can be hedged for up to one year.

The table below shows the contracted and forecasted commercial net flows for the most important currencies over one year. A currency flow with a negative figure means that the Group buys more in that currency than it sells in the same currency, while a positive figure means that the Group sells more than it buys in that currency. The table also shows that the USD is the Group's biggest sales currency and that the EUR is the Group's biggest purchase currency.

Currency	One year's flow, SEK millions	Percentage hedged 31 Dec 06	Unrealized gain/loss, SEK millions	Of which taken up on income SEK millions
AUD	–56.4	48	0.3	0.3
CAD	81.8	0	–	–
EUR	–333.5	94	–2.1	–0.2
GBP	58.6	0	–	–
MXN	79.8	0	–	–
NOK	22.4	0	–	–
PLN	59.5	0	–	–
USD	2,137.2	75	83.0	17.8
			81.2	**17.9**

Unrealized exchange rate gains on the Group's total forwards related to hedging of commercial flows amounted to net SEK 81.2 mn on 31 Dec 2006. A gain of net SEK 17.9 mn mainly attributable to hedging of accounts receivable has been recognized in income.

EUR bought forward and not taken up as income amount to EUR 33 mn, at an average exchange rate of SEK 9.10/EUR. USD sold forward and not recognized as income amount to USD 178 mn, at an average exchange rate of SEK 7.17/USD.

In terms of financial flows, the nominal loan amounts are hedged in full whilst interest flows are not hedged

Translation exposure

The Group has invested capital in several different countries, and conversion to SEK, the Group's presentation currency, is based on the exchange rate in force at the end of the financial period in question. Therefore, the SEK value of foreign net capital changes in proportion with the exchange rates. Such changes are posted directly in Group equity under exchange rate differences. In accordance with the Group's treasury policy, foreign net capital excluding goodwill on consolidation has mostly been financed in the same currency. Both loans and forward contracts have been used to achieve this, and tax effects have also been taken into account. In order to meet exchange rate differences on the invested foreign net capital, exchange rate differences for such loans and forward contracts, both realized and unrealized, have been posted directly in equity. This is shown in Note 22 under the heading "Translation reserve".

The table below shows how much capital excluding goodwill the Group has invested in the most important currencies on 31 Dec 2006, and how large a proportion of this has been hedged in loans and forwards respectively.

Currency	Net assets, SEK millions	Percentage hedged
DKK	1,039	91
EUR	976	85
USD	1,970	97
PLN	526	0
Other	132	0

Another form of translation exposure is the accumulated financial results of foreign subsidiaries during the year, which have an ongoing effect on foreign equity. The Group normally adjusts the amount by which foreign equity is to be hedged once a year in connection with drawing up the annual accounts. The reason why the percentage hedged on 31 Dec is not 100%, is because the accumulated results for 2006 have not yet been hedged.

EXCHANGE RATE SENSITIVITY

As shown above, the Group's transaction exposure is largely comprised of export income in USD. For this type of exposure, there is very little opportunity to compensate for any exchange rate fluctuations by means of price adjustment, for example. Any coverage measures taken therefore mainly lead only to a delay in the exchange rate effects for the duration of the forward contracts in place and also create better conditions for forecasting results.

On an annual basis, it is estimated that a fluctuation of SEK 0.10 in the USD exchange rate would affect the operating profit by approximately SEK 35 mn, including the effect when translating the year's profit.

FINANCING RISK

The Group's treasury policy states that long-term financing, including equity, provisions, long-term loans and loan promises should at least equal capital employed. Long-term loans and loan promises refer to loans with an original tenor of one year. The policy also states that the average term of long-term loans must be more than two years. The proportion of capital employed that has been financed long-term, i.e. the Group's 'matching', amounted to 112% on 31 Dec 2006.

LIQUIDITY RISKS

The treasury policy states that the Group should minimize the liquidity risk by ensuring access at all times to cash and cash equivalents equalling 8% of annual sales, although at least SEK 400 mn, within a maximum of three banking days.

On 31 Dec 2006, the Group had unused credit facilities of SEK 3,860 mn. Together with cash and cash equivalents of SEK 400 mn, this provides a total liquidity reserve of SEK 4,260 mn.

INTEREST RATE RISK

The Group's loans have an average interest term of 5.0 months, which is within the treasury policy's limit of one year.

All bond loans in USD, except for the loan of USD 33 mn, are subject to fixed interest. The Group has used interest rate swaps, which are directly connected to the respective bond loan, to change the fixed interest rate to floating rate interest. The Group reports these interest rate swaps in accordance with hedge accounting which means that changes in the fair value of the swaps and the underlying bond loans have been recognized in the income statement.

The bond loan in SEK of SEK 600 mn due in 2007 is subject to fixed rate interest. This loan has been swapped into fixed USD interest using cross-currency swaps. On 31 Dec 2006 the unrealized gain on this crosscurrency swap amounted to SEK 95.6 mn.

Based on the Group's net loan debt on 31 Dec 2006, a general increase in market interest rates of one percentage point would increase interest expense by approximately SEK 46 mn a year.

COUNTERPARTY RISK

Counterparty risk is the risk that the other party in a transaction will default when an obligation is due.

The Group's financial transactions are exclusively with banks and credit institutions with a long-term credit rating equal to or better than A2 (Moody's) or A (Standard & Poor's). International Swap Dealers' Association (ISDA) agreements have been established with a majority of the Group's banks.

Total receivables regarding financial instruments where V&S has a receivable on the counterparty amounted to SEK 614 mn on 31 Dec 2006, of which cash and cash equivalents amounted to SEK 400 mn. The biggest receivable on a single counterparty totalled SEK 178 mn, of which cash and cash equivalents amounted to SEK 105 mn.

The risk that the Group's customers will default, i.e. that no payment will be received for accounts receivable, constitutes a customer credit risk. V&S's customer credit risk is assessed as relatively low as the majority of customers are companies with a good reputation and a good credit rating. Bad debt losses account for no more than 0.03% in relation to the Group's total net sales.

Long-term loans and loan promises amounted to the following:

Loans	Credit Facility frame	Utilized amount on 31 Dec 06	Due for repayment	Redemption	Funding basis[1]	Interest rate, %
Syndicated loan[2]	USD 380 mn	USD 0 mn	2011	None	Floating	
Bond loans	USD 33 mn	USD 33 mn	2010	None	Floating 6 m	6.26
Bond loans	USD 160 mn	USD 160 mn	2008	None	Fixed	
Effect of swap	USD 160 mn	USD 160 mn	2008	None	Floating 6 m	6.05
Bond loans	USD 140 mn	USD 140 mn	2009	None	Fixed	
Effect of swap	USD 140 mn	USD 140 mn	2009	None	Floating 6 m	6.11
Bond loans	USD 200 mn	USD 200 mn	2010	None	Fixed	
Effect of swap	USD 200 mn	USD 200 mn	2010	None	Floating 6 m	5.99
Bond loans	SEK 600 mn	SEK 600 mn	2007	None	Fixed	
Effect of swap	USD 75.3 mn	USD 75.3 mn	2007	None	Fixed	3.01

1 See above under Interest Rate Risk.

2 Refers to an agreement with 8 banks regarding a syndicated credit facility amounting to USD 380 million in the form of a Multi-Currency Revolving Credit Facility. No formal collateral has been given for the loan. However, the agreement does stipulate the standard demands that the Group's equity must amount to a certain minimum along with restrictions on raising new loans and the sale or pledging of the company's assets. On 31 December 2006 the entire amount was unutilized.

Note 30 continued over

Note 30 contd.

FAIR VALUE

The table below shows the carrying amount and fair value for each type of financial instrument. The differences between carrying amount and fair value regarding shares, participations and bank loans are attributable to the hedge accounting described in Notes 16, 17 and 24.

Fair values and carrying amounts are recognized in the balance sheet below:

GROUP SEK millions	Carrying amount **2006**	Fair value **2006**	Carrying amount 2005	Fair value 2005
Financial investments	3,521.5	3,521.5	2,842.2	2,842.2
Accounts receivable	2,243.8	2,243.8	2,402.3	2,402.3
Receivables from associated companies	304.1	304.1	207.3	207.3
Cross-currency swaps:				
Assets	95.6	95.6	44.7	44.7
Interest rate swaps:				
Liabilities	–150.7	–150.7	–201.2	–201.2
Foreign exchange forward contracts:				
Assets	221.9	221.9	43.3	43.3
Liabilities	–21.1	–21.1	–48.0	–48.0
Loans	–5,577.6	–5,577.6	–5,694.7	–5,694.7
Financial lease liabilities	–130.8	–130.8	–135.1	–135.1
Electricity derivatives:				
Assets	4.5	4.5	8.6	8.6
Accounts payable	–906.1	–906.1	–725.4	–725.4
	–394.9	**–394.9**	**–1,256.0**	**–1,256.0**
Unrecognized gains/losses		0.0		0.0

PARENT COMPANY MSEK	Carrying amount **2006**	Fair value **2006**	Carrying amount 2005	Fair value 2005
Other long-term securities	4,930.5	3,515.4	3,803.9	2,835.7
Accounts receivable	1,649.1	1,649.1	1,660.3	1,660.3
Cross-currency swaps:				
Assets	4.3	95.6	5.7	44.7
Interest rate swaps:				
Liabilities	–2.7	–150.7	–1.5	–201.2
Foreign exchange forward contracts:				
Assets	136.7	223.5	62.1	43.3
Liabilities	–17.1	–21.2	–61.6	–48.0
Loans	–8,947.8	–6,781,2	–7,472.2	–5,559.9
Electricity derivatives:				
Assets	4.5	4.5	8.6	8.6
Accounts payable and other liabilities	–410.3	–410.3	–307.8	–307.8
	–2,652.8	**–1,875.3**	**–2,302.5**	**–1,524.3**
Unrecognized gains/losses		–777.4		–778.2

CALCULATING FAIR VALUE

The following is a summary of the main methods and assumptions used to establish the fair value of the financial instruments presented in the table above.

Securities

Financial investments essentially comprise a 10% preference shareholding in Beam Global Spirits & Wine, Inc., which was acquired in 2001 and 2006. The company is a non-listed American company owned 90% by Fortune Brands Inc., which is listed on the NYSE. As the holding is non-listed, it has not been possible to calculate the fair value from market value; instead the value has been adjusted due to the change in exchange rates since the acquisition date. The holding is hedged, and the gain or loss from exchange rate effects of both the asset and the hedging instrument is recognized in the income statement.

Derivative instruments

Foreign exchange forward contracts are valued at the applicable forward rate with the profit discounted to present value. In order to determine the fair value of interest rate swaps and cross-currency swaps, future cash flows are discounted by the applicable swap curve.

Interest-bearing liabilities

Fair value is calculated by discounting future payments at the balance sheet date using the market rates of interest in effect on 31 Dec 2006.

Financial lease liabilities

Fair value is based on the present value of future cash flows discounted at the market rate of interest for similar lease agreements. The calculated fair value reflects changes in interest rates.

Accounts receivable and accounts payable

All accounts receivable and accounts payable fall due for payment within one year, which is why the carrying amount is considered to reflect the fair value.

Exchange rates

	Closing day rate **2006**	Average rate **2006**	Closing day rate 2005	Average rate 2005
USD/SEK	6.8749	7.3766	7.9559	7.4775
EUR/SEK	9.0536	9.2549	9.3939	9.2849
DKK/SEK	1.2143	1.2408	1.2592	1.2460
PLN/SEK	2.3617	2.3777	2.4322	2.3102

NOTE 31 OPERATING LEASES

Lease agreements in which the companies are the lessee
Property and premises

Non-cancellable lease payments amount to:

	GROUP		PARENT COMPANY	
SEK millions	**2006**	2005	**2006**	2005
Within one year	70.2	67.8	36.3	41.3
Between one and five years	188.2	183.7	93.4	108.4
Longer than five years	113.1	84.4	19.3	39.3
	371.5	**335.9**	**149.0**	**189.0**

Equipment

Non-cancellable lease payments amount to:

	GROUP		PARENT COMPANY	
SEK millions	**2006**	2005	**2006**	2005
Within one year	8.7	8.2	6.1	5.8
Between one and five years	14.2	12.2	10.9	11.4
	22.9	**20.4**	**17.0**	**17.2**

Group

Lease payments for property and premises refer to rent for office premises in Stockholm, New York, Odense, Berlin, Florida and Helsinki. Moreover, rent for storage premises in Stockholm, Åhus, Svendborg and Odense as well as a production unit in Turku, are also included. The rental contracts apply commercial terms with regard to prices and duration. The rental contracts are index-linked (presented as contingent rent) and any property taxes are excluded. The New York office will relocate to new premises in April 2007. The current premises will be sublet until the lease expires. As no subletting contract is yet in place, this is not presented separately. The lease on the office in Berlin, which runs until 2008, was terminated in December 2006 as the offices have moved to the company's premises in Buxtehude. The office premises in Florida are being leased until mid-2007.

Equipment refers to forklift trucks, container cars and the lease of approximately 130 cars.

The Group's net profit for 2006 includes a cost of SEK 79.4 (71.9) mn regarding operating leases, of which SEK 77.6 (70.0) mn refers to minimum lease payments and SEK 1.9 (1.9) mn to contingent rents.

In 2003, V&S signed an agreement regarding total supply of IT services and operation for all V&S operations in Sweden and most of the operation in Denmark. The service commitment from the supplier is farreaching, which means that V&S purchases functionality and accessibility for specified IT services at the end-user site according to an End-to-End SLA (Service Level Agreement). This means that hardware is also included in the service. However, it is not possible to separate the costs for this. The IT service is priced according to a structure founded on a basic price for an agreed basic volume. The price is based on an agreement period of 5 years with an option for a further 2 years.

Parent Company
Lease payments for property and premises pertain to rent on office and storage premises in Stockholm, and storage premises in Åhus. The rental contracts apply commercial terms with regard to prices and duration. The rental contracts are index-linked (presented as contingent rent) and any property taxes are excluded.

Equipment refers to forklift trucks, container cars and the lease of approximately 100 cars.

The Parent Company's net profit for 2006 includes a cost of SEK 49.6 (48.3) mn regarding operating leases, of which SEK 47.8 (46.4) mn refers to minimum lease payments and SEK 1.9 (1.9) mn to contingent rents.

NOTE 32 PLEDGED ASSETS AND CONTINGENT LIABILITIES

SEK millions	GROUP 2006	GROUP 2005	PARENT COMPANY 2006	PARENT COMPANY 2005
Pledged assets	None	None	None	None
Contingent liabilities				
Guarantees, FPG/PRI	3.3	3.2	3.3	3.2
Guarantees on behalf of Parent Company	31.6	31.9	31.6	31.9
Guarantees on behalf of subsidiaries	65.3	79.5	7.7	33.5
Guarantees on behalf of associated companies	565.8	587.1	565.8	587.1
	666.0	**701.7**	**608.4**	**655.7**

NOTE 33 RELATED PARTIES

Related party relationship

Group
The Group is under a controlling influence from the Swedish state. Other state-owned companies and organizations are not considered in this context.

Parent Company
In addition to the related party relationships reported for the Group, the Parent Company has related party relationships which encompass a controlling influence with its subsidiaries, see Note 34.

Summary of transactions with related parties

Related party transactions		Sales of goods to related parties	Purchase of goods from related parties	Liability to related parties on 31 Dec	Receivables from related parties On 31 Dec
GROUP					
Associated companies	2006	1 061,4	271.2	21.8	304.1
Associated companies	2005	1 023,3	189.2	20.5	207.3
Joint ventures	2006	–	432.7	91.4	–
Joint ventures	2005	–	413.4	28.8	–
PARENT COMPANY					
Subsidiaries	2006	2,805.4	291.2	1,256.9	1,353.7
Subsidiaries	2005	2,983.1	314.4	527.6	2,066.9
Associated companies	2006	896.7	261.5	15.3	268.6
Associated companies	2005	845.2	183.4	18.6	207.3

Transactions with related parties are priced in accordance with market conditions.

Transactions with key people in senior posts
There have been no transactions with key people in senior posts except for those reported in Note 26.

NOTE 34 GROUP COMPANIES

Holding in subsidiaries

	Subsidiary's domicile, country	Ownership in % 2006	Ownership in % 2005
The Absolut Spirits Company, Inc.	USA	100.0	100.0
Cruzan International, Inc.	USA	100.0	63.6
V&S Danmark A/S	Denmark	100.0	100.0
V&S Deutschland GmbH	Germany	100.0	100.0
V&S Finland Oy	Finland	100.0	100.0
V&S Plymouth Ltd	United Kingdom	100.0	100.0
V&S Luksusowa Zielona Góra S.A.	Poland	99.9	99.8
V&S Eesti AS	Estonia	100.0	100.0
Amundsen AS	Norway	50.0	50.0

SEK millions	PARENT COMPANY 2006	PARENT COMPANY 2005
Accumulated costs		
At the beginning of the year	7,215.8	7,203.2
Purchase	0.2	52.6
Close-down	–67.7	–
Sales	–	–40.0
	7,148.3	**7,215.8**
Accumulated write-downs		
At the beginning of the year	–393.1	–393.1
Close-down	32.4	–
Write-downs for the year	–133.0	–
	–493.7	**–393.1**
Carrying amount	**6,654.6**	**6,822.7**

Write-downs for the year are recognized in the income statement in the line "Profit from shares in Group companies". The write-downs primarily relate to the shares in V&S Plymouth Ltd following the Parent Company's acquisition of the Plymouth Gin trademark.

Purchases during the year comprise shares in V&S Luksusowa Zielona Góra. Closures relate to the dormant companies in Chile and Poland.

Note 34 continued over.

Note 34 contd.

Specification of Parent Company and Group holdings of shares in Group companies

	Holding (%)	Carrying amount **2006**	Carrying amount 2005
The Absolut Spirits Company, Inc. USA	100.0	2,383.8	2,383.8
Cruzan International, Inc., USA	100.0		
V&S Danmark A/S, Denmark	100.0	2,088.5	2,088.5
A/S Dansk Gæringindustri, Denmark	100.0		
J.J.Jacobsen GmbH, Germany	100.0		
V&S Deutschland GmbH, Germany	100.0	998.5	998.5
V&S Finland Oy, Finland	100.0	708.2	708.2
V&S Plymouth Ltd, United Kingdom	100.0	102.3	234.1
V&S Luksusowa Zielona Góra S.A., Poland	99.9	350.8	350.6
V&S Vin & Sprit Polska Sp.z o.o, Poland	100.0	–	33.1
V&S Eesti AS, Estonia	100.0	15.8	15.8
The Absolut Company Chile S.A.	100.0	–	2.2
Amundsen AS, Norway	50.0	6.1	6.1
Other subsidiaries which are dormant or less significant		0.6	1.8
		6,654.6	**6,822.7**

NOTE 35 UNTAXED RESERVES

SEK millions	PARENT COMAPANY **2006**	2005
Accumulated excess depriciation/amortization:		
Trademarks		
Opening balance	91.2	98.0
Excess amortization for the year	508.4	–6.8
	599.6	**91.2**
Buildings and land improvements		
Opening balance	–	114.8
Excess amortization for the year	–	–114.8
	–	–
Machinery and equipment		
Opening balance	251.5	213.8
Excess amortization for the year	–50.2	37.7
	201.3	**251.5**
Tax allocation reserve		
Provision in 2001 taxes	–	313.3
Provision in 2002 taxes	425.5	425.5
Provision in 2003 taxes	434.5	434.5
Provision in 2004 taxes	421.1	421.1
Provision in 2005 taxes	336.2	336.2
Provision in 2006 taxes	312.3	312.3
Provision in 2007 taxes	398.8	–
	2,328.4	**2,242.9**
Total untaxed reserves	**3,129.3**	**2,585.6**

Taxable excess depreciation on buildings and land improvements are reversed in the accounts and amount to SEK 114.8 (107.8) mn.

NOTE 36 CASH FLOW ANALYSIS

Cash and cash equivalents

SEK millions	GROUP **2006**	2005	PARENT COMPANY **2006**	2005
The following items are included in cash and cash equivalents				
Cash and bank balances	77.6	74.6	114.5	79.6
Short-term investments, classed as cash and cash equivalents	322.5	551.8	76.0	72.8
Total in accordance with balance sheet	**400.1**	**626.4**	**190.5**	**152.4**
Total in accordance with cash flow analysis	**400.1**	**626.4**	**190.5**	**152.4**

Short-term investments have been classified as cash and cash equivalents based on the following assumptions:

- The risk of fluctuations in value is insignificant
- They can easily be converted into cash
- They have a maximum term of three months from the acquisition date

Interest paid and dividend received

SEK millions	GROUP **2006**	2005	PARENT COMPANY **2006**	2005
Dividend received	89.2	79.7	160.1	152.0
Interest received	16.3	55.8	95.7	54.9
Interest paid	–380.5	–266.8	–410.6	–271.1
	–275.0	**–131.3**	**–154.8**	**–64.2**

Adjustment for items not included in cash flow

SEK millions	GROUP **2006**	2005	PARENT COMPANY **2006**	2005
Depreciation/amortization	264.4	190.7	202.5	116.9
Unrealized exchange rate differenses	230.1	92.7	–	–
Share of profit in associated companies and joint ventures	–238.3	–213.9	–	–
Capital gain from sale of tangible fixed assets	–166.7	–64.8	–160.2	–72.4
Capital gain from sale of businesses	4.5	–	–2.6	–
Provisions for pensions	6.3	6.3	4.4	–0.5
Other provisions	4.6	–18.5	19.0	–1.0
Other items not affecting liquidity	164.1	35.3	–177.0	217.0
	269.0	**27.8**	**–113.9**	**260.0**

Acquisitions of subsidiaries and other business units

SEK millions	GROUP **2006**	2005
Acquired assets		
Intangible fixed assets	110.1	1,135.6
Tangible fixed assets	–	268.6
Financial fixed assets	–	27.8
Inventories	–	244.9
Operating receivables	–	228.1
Cash and cash equivalents	–	33.1
	110.1	**1,938.1**
Acquired provisions and liabilities		
Long-term provisions	7.8	–55.5
Long-term interest-bearing liabilities	–	–227.0
Current operating liabilities	–	–165.5
	7.8	**–448.0**
Minority interest	540.3	–483.1
Purchase price paid	658.2	1,007.0
Less: Cash and cash equivalents in the business aquired	–	–33.1
Effect on cash and cash equivalents	**658.2**	**973.9**

Sale of subsidiaries and other business units

SEK millions	GROUP 2006	2005
Sold assets and liabilities		
Intangible fixed assets	–	18.6
Tangible fixed assets	–	4.2
Financial assets	–	0.1
Inventories	–	40.7
Operating receivables	–	31.4
Cash and cash equivalents	37.8	11.8
	37.8	**106.8**
Sold provisions and liabilities		
Long-term provisions	–	–7.5
Long-term interest-bearing liabilities	–	–14.3
Current operating liabilities	–	–35.8
	–	**–57.6**
Selling price:		
Purchase price received	37.8	99.4
Less: Cash and cash equivalents in the divested business	–37.8	–11.8
Effect on cash and cash equivalents	**–**	**87.6**

Unutilized credits

SEK millions	GROUP 2006	2005	PARENT COMPANY 2006	2005
Unutilized credits	3,859.7	5,236.0	3,820.2	5,196.5

Change in net loans

SEK millions	GROUP 2006	2005	PARENT COMPANY 2006	2005
Net loans at the beginning of the year	5,152.9	4,053.1	7,413.1	6,668.1
Raising of new interest-bearing liabilities	2,353.3	400.0	2,353.3	400.0
Change in interest -bearing liabilities	–1,899.7	–936.1	–1,895.4	–710.1
Unrealized exchange rate difference in interest-bearing liabilities	–657.7	697.8	–181.3	119.8
Other changes in interest-bearing liabilities	87.1	102.7	–	–
Changes in pension provisions	4.8	–0.4	4.4	–0.5
Change in cash and cash equivalents	226.3	835.8	–38.1	935.8
	5,267.0	**5,152.9**	**7,656.0**	**7,413.1**

NOTE 37 EVENTS AFTER THE BALANCE SHEET DATE

Systembolaget, the Swedish Alcohol Retailing Monopoly, has decided to change distributor for approximately 15 of V&S's wine products. They hold that V&S has contravened the terms of its supplier contract during the years 2001–2003 with reference to the prosecution of certain employees at V&S for bribery. The change of distributor equates to annual sales of SEK 32 million. V&S is taking the matter to arbitration to clarify whether Systembolaget is entitled to carry out such an action.

On 1 Feb 2007, V&S Group signed an agreement with French spirits company Belvédère regarding the sale of Florida Distillers, whose operations were part of the acquisition of Cruzan International, Inc. In 2006 the operation's sales amounted to SEK 600 million, operating profit to SEK 48 million and the number of employees to 303.

NOTE 38 IMPORTANT ESTIMATES AND ASSESSMENTS

With the Board's audit committee, the corporate management has discussed development, election and disclosures regarding the Group's critical accounting principles and estimates, as well as the way in which they are applied.

Impairment test of intangible assets

In calculating the recoverable amounts of cash generating units to assess any write-down requirement for goodwill and trademarks, several assumptions have been made regarding future circumstances and parameter estimates. These assumptions are reported in Note 11. As shown in Note 11, changes in the foundation for these assumptions and estimates in 2007 could have a considerable impact on the value of intangible assets.

Foreign currency exposure

Exchange rate fluctuations can have relatively serious effects on the company in general. Note 30 provides a detailed analysis of foreign currency exposure, as well as risks associated with exchange rate fluctuations.

Assumptions relating to pensions

The corporate management has assumed an expected return on plan assets of 1.7 percentage points above the discount rate, as this is the average return achieved in the past three years. If the actual return in 2007 falls below the expected long-term return, the Group's unrecognized actuarial losses would increase, which could mean that a certain proportion of these would have to be recognized in the income statement and balance sheet for 2007. Considerable positive deviations could entail that actuarial gains need to be recognized.

Tax liability

In 2001 the Parent Company acquired a group of business-related shares in American company Beam Global Spirits & Wine Inc. To minimize the exchange rate risk of this investment, an equivalent loan was raised in USD. The Group applies hedge accounting for the holding and therefore does not recognize exchange rate gains on either the shares or the loan. According to Swedish tax law, exchange rate gains and losses on business-related shares are not taxable, while the corresponding exchange rate gains and losses on loans in foreign currencies are taxable.

In a request to the tax authority for advance notification, the corporate management has expressed the opinion that exchange rate gains and losses on the loan should be treated on the same basis as the corresponding exchange rate gains and losses on the shares. The tax authority replied in 2005 that no such interpretation is substantiated in Swedish tax law. The decision has been appealed against in the Supreme Administrative Court.

Since the investment was made, the US dollar has fallen sharply against the Swedish krona. The Group therefore recognizes a tax liability corresponding to the future tax that may be payable for the exchange rate gain on the loan. Should the Supreme Administrative Court find in favour of the V&S corporate management, the recorded tax liability will be derecognized, thus producing a tax revenue in the accounts.

NOTE 39 DETAILS OF THE PARENT COMPANY

V&S Vin & Sprit AB (publ) is a limited company registered in Sweden with the domicile of the Board of Directors in Stockholm. The corporate identity number is 556015-0178. The address of the head office is Årstaängsvägen 19a in Stockholm, and the postal address is 117 97 Stockholm.

The consolidated financial statements for 2006 relate to the Parent Company and its subsidiaries, jointly referred to as the Group. The Group also includes owned portions of holdings in associated companies and joint venture companies.

Proposed disposition of earnings

The Board of Directors and Chief Executive Officer propose that the retained earnings of SEK 3,599, 424,372.82 at disposal be allocated as follows:

SEK millions	
Dividend (500 shares x SEK 1,420,000 per share)	710
To be carried forward	2,889
Total	**3,599**

The Board of Directors and CEO hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles for stock market companies. The information submitted concurs with the actual situation in the operation, and nothing of material importance has been omitted which could affect the image of the Group and Parent Company conveyed by the Annual Report.

Stockholm, 20 February 2007

Claes Dahlbäck
Chairman

Anders Björck

Jonas Iversen

Sonia Karlsson

Ebbe M Loiborg

Helle Kruse Nielsen

Mats G Ringesten

Bengt Baron
Chief Executive Officer

Jan Lundin
Employee Representative

Johan Lund
Employee Representative

Our Audit Report was submitted on 20 February 2007

KPMG Bohlins AB

Stefan Holmström
Authorized Public Account

Audit Report

To the annual meeting of the shareholders of V&S Vin & Sprit AB (publ)
Corporate identity number 556015-0178

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Chief Executive Officer of V&S Vin & Sprit AB (publ) for the year 2006. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 30–70. The Corporate Governance Report which is included on pages 72–81 has not been subject to our audit. The Board of Directors and the Chief Executive Officer are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Chief Executive Officer and significant estimates made by the Board of Directors and the Chief Executive Officer when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the Chief Executive Officer. We also examined whether any board member or the Chief Executive Officer has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the Parent Company and the group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Stockholm, 20 February 2007
KPMG Bohlins AB

Stefan Holmström
Authorized Public Accountant

Corporate Governance Report

Major Swedish listed companies apply the Swedish Code of Corporate Governance. V&S Vin & Sprit AB (publ) is not a listed company but strives for the same quality and transparency in its financial reporting as listed companies.

The company's owner, the Kingdom of Sweden through the Swedish government, has also stated that the Code will form part of the government's framework for owner administration.

THE COMPANY'S REMIT AND ARTICLES OF ASSOCIATION

The prevailing conditions for the company's business operations were mainly drawn up in the run-up to Sweden's entry into the European Union in 1995. As a result of decisions taken by the Swedish parliament, the monopoly on the import, export, production and wholesale trade of alcoholic beverages was abolished. V&S, which used to have the task of managing this monopoly, therefore came to be one of several competing companies on the market for alcoholic beverages. At the same time, both the government and parliament considered it desirable to maintain an insight into the alcoholic beverage industry for alcohol policy reasons, and V&S was therefore kept under state ownership.

According to the Articles of Association, the name of the company is V&S Vin & Sprit Aktiebolag (publ), the seat of the Board of Directors shall be in Stockholm, and the business of the company shall be to "manufacture, process or otherwise prepare alcoholic beverages and non-alcoholic beverages and to carry on wholesale trading in and import and export of the aforesaid products and to engage in other business activities compatible therewith".

The Articles of Association stipulate that the company's share capital shall be not less than SEK 250 million and not more than SEK 500 million, and that the Board of Directors shall comprise of not less than three and not more than 10 members, and that a deputy member may also be appointed. Moreover, aspects such as the forms for convening General Meetings and their content are also regulated. The Articles of Association also set out the company's obligation to inform the Swedish parliament of future General Meetings and the rights of members of the Swedish parliament to attend and put questions at those meetings.

The company is registered in Sweden and operates under Swedish law. As a state-owned company, V&S also complies with the Swedish government's ownership policy which contains guidelines regarding the Board's efficiency, the role of the auditors, effective capital structure, transparency and accounting, remuneration and benefits, along with goals in important areas in order to contribute to sustain able development.

The Articles of Association are available at vsgroup.com.

SHARE CAPITAL AND OWNERSHIP

The company's share capital amounts to SEK 500 million. All shares are owned by the Kingdom of Sweden. Ownership is exercised by the government through the Ministry of Enterprise, Energy and Communications. The Swedish government has announced its intention to reduce its shareholding in V&S.

ANNUAL GENERAL MEETING

The Articles of Association stipulate that the AGM is to be held once a year not later than the month of April. The 2006 AGM took place on 29 March 2006 in Stockholm. In accordance with the guidelines for companies wholly owned by the state, the AGM was open to the general public, as was clear from advertising and the company's website. The 2005 Annual Report was available at the AGM, along with the company's Corporate Responsibility Report for 2005. Moreover, the CEO outlined the main points of the Group's operation and the terms of employment for senior managers.

The AGM took the following decisions:

- The 2005 accounts were approved and the Board and CEO were discharged from liability for their administration during 2005.
- The share dividend was confirmed at SEK 600 million.
- Anders Björck, Claes Dahlbäck, Lars Danielsson, Jonas Iversen, Ebbe M Loiborg, Helle Kruse Nielsen and Mats G Ringesten were re-elected onto the Board and Sonia Karlsson was newly elected. The AGM also appointed Claes Dahlbäck Chairman of the Board. The Board also includes employee representatives.
- Fees for the Board of Directors were established.
- Changes in the Articles of Association were adopted due to the new Swedish Companies Act which came into force on 1 January 2006.
- The principles for remuneration and terms of employment for senior managers were approved.

The minutes of the AGM are available at vsgroup.se.

The Chairman has been a member of the Board for longer than the period recommended in the Swedish state ownership policy. This was motivated by the fact that his expertise is considered very important to the company's development.

NOMINATION PROCESS

The Nomination Committee is primarily a body for shareholders to prepare decisions regarding appointment issues. The following principles replace the Code's rules regarding the preparation of decisions relating to appointment of

Board members and auditors for state-owned companies:

The Ministry of Enterprise, Energy and Communications has been delegated special responsibility for Board nominations in all state-owned companies. The nomination process is driven and co-ordinated by the unit for state ownership within the Ministry. A working group analyzes the competence requirement based on each Board's composition and the company's business and situation. Any recruitment need is then identified and the recruitment work begins. Members of the Board are chosen from a broad recruitment base. When the process is complete, nominations are to be published in line with the Code's guidelines.

BOARD OF DIRECTORS

The Board's rules of procedure

The rules of procedure include the following:

- The Board shall ordinarily hold at least five meetings per calendar year, in addition to the inaugural board meeting.
- The Board shall have an Audit Committee to assist the Board in audit issues and a Remuneration Committee to assist the Board in issues relating to compensation and other terms of employment for the CEO and other senior managers and in other issues relating to incentive programmes.
- The following issues shall be dealt with at each ordinary board meeting:
  – The CEO's report regarding business situation, future outlook, economic report and financial report.
  – Other issues that come under the remit of the Board in accordance with legislation and the rules of procedure.
- During the first two months of the year the Annual Report etc. shall be dealt with.
- In February the auditors' report shall be dealt with.
- The CEO's work and the Board's work forms shall be evaluated and prevailing instructions reviewed at least once a year.
- At the last board meeting of the year, decisions shall be taken on business plans and goals for the following year.
- The company's vision and strategies shall be discussed at least once a year.
- The rules of procedure shall be reviewed annually.

According to the rules of procedure, the following issues shall be submitted to the Board for a decision:

- Investments exceeding SEK 10 million.
- Acquisitions and divestments of operations and parts of operations unless the amount involved is less than SEK 5 million. In connection with acquisitions or divestments, the Board may authorize the CEO to carry out transactions within explicit set frames.
- The formation of a subsidiary or a capital increase in a subsidiary in excess of SEK 5 million.
- Treasury policy for foreign exchange deals, interest rate instruments or derivatives.
- Acquisition or sale of real estate exceeding SEK 15 million.
- Implementation of significant changes regarding insurance protection.
- Other issues of material economic or other importance which do not come under Section 8 §25 of the Swedish Companies Act.

The Chairman of the Board's responsibilities include co-ordinating the Board's view with the owner in issues of crucial importance to the company, ensuring that the distribution of work between the Board and the CEO is maintained and monitoring the Group's development through contact with the CEO.

The CEO has a series of tasks mainly regarding economic reporting, the production of information and decision data, and responsibility for ensuring obligations, contracts or other legal deeds entered into by the Group do not contravene non-optional Swedish or overseas constitutions, including rules on competition and fair trade. The CEO shall also ensure that objectives, policies and strategic plans are complied with and, as required, updated.

Board's work in 2006

In 2006, the Board of Directors held eight board meetings where minutes were taken, one of which was per telephone. Most board meetings have lasted approximately half a day.

The CEO and representatives of the company's management have provided the members with information about the Group's financial position and important events at all regular meetings. In addition, the following important issues have been dealt with, amongst others:

22 February 2006
Annual accounts, annual report, follow-up of acquisitions, divestment of certain trademarks.

29 March 2006
Reports from the external audit, internal control and the Remuneration Committee, vision for the Group, handling of non-core businesses in Cruzan International, Inc.

29 March 2006
Inaugural meeting after the AGM.

23 May 2006
Decision on participating in new share issue in Beam Global Spirits & Wine, Inc.

14 June 2006
The Board's rules of procedure, new investment in Åhus.

22 September 2006
Report from the Audit Committee, new investment in Svendborg.

16 November 2006
Strategy discussion.

12 December 2006
Report from the Audit Committee, 2007 business plan, possible closure of the plant in Sundsvall.

In addition to the information provided during the meetings, the CEO sends monthly summaries to the Board members.

Board members

CLAES DAHLBÄCK (CHAIRMAN)

Born 1947. Swedish citizen. Elected 1991, Board Chairman 1993. Member of the Audit Committee and Remuneration Committee.

Board Chairman of Stora Enso, Board member of Goldman Sachs.

ANDERS BJÖRCK

Born 1944. Swedish citizen. Elected 2000.

County Governor since 2003, member of the Swedish Parliament 1968–2002, First Deputy Speaker of Parliament 1994–2002, Minister of Defence 1991–1994.

JONAS IVERSEN

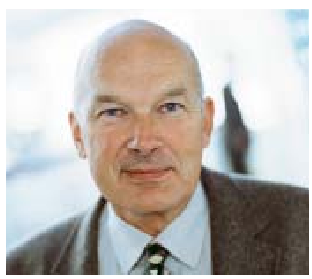
Born 1965. Swedish citizen. Elected 2003. Member of the Audit Committee.

Senior Adviser in the Ministry of Enterprise, Energy and Communications since 2000. Board member of Posten.

SONIA KARLSSON

Born 1946. Swedish citizen. Elected 2006.

Member of the Swedish Parliament since 1988. Member of Östergötland county administrative board, Board member of The Museum of Work and Motala municipal council. Deputy member of the General Council of the Riksbank (Central Bank of Sweden) until September 2006.



EBBE M LOIBORG

Born 1945. Danish citizen. Elected 2000. Member of the Audit Committee.

Board Chairman of the Board of IN-Store. Board member of Frode Laursen.

HELLE KRUSE NIELSEN

Born 1953. Danish citizen. Elected 2004.

Board member of Gumlink A/S, Oriflame AB and BestyrelsesGruppen.

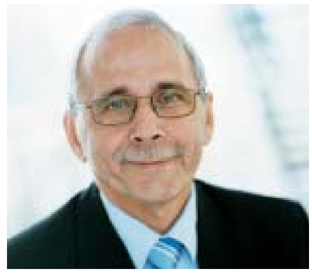
MATS G RINGESTEN

Born 1950. Swedish citizen. Elected 2004. Member of the Remuneration Committee.

Senior Partner of Neuman & Nydahl since 1995. Board member of Industri Kapital Industrial Advisory Board and Board member of the Royal Swedish Academy of Engineering Sciences.

Board members appointed by employee organizations

JOHAN LUND
Born 1958. Swedish citizen. Elected 2003.
Senior Editor since 1995.



JAN LUNDIN
Born 1946. Swedish citizen. Elected 1998.
Line employee since 1989.

KENT KARLSSON
Born 1950. Swedish citizen. Elected 2004.
Deputy member. Planning manager since 2000.

ROGER MÖLLER
Born 1956. Swedish citizen. Elected 2000.
Deputy member. Warehouse worker since 1975.

Changes during 2006

ARNE MÅRTENSSON
Born 1951. Swedish citizen. Elected Deputy member 1992, ordinary member 1993. Left the Board of Directors and Audit Committee in connection with the 2006 AGM. In 2006, Arne Mårtensson also resigned his Board assignments at Handelsbanken (Board Chairman), Ericsson (Deputy Chairman), Sandvik, Skanska, Industrivärden and Holmen, as well as other assignments such as Chairman of the Stockholm School of Economics Advisory Board and the Business Council of World Economic Forum.

LARS DANIELSSON
Born 1953. Swedish citizen. Elected 2003. Left the Board of Directors and Audit Committee in October 2006. Former Under-Secretary at the Prime Minister's Office.

Audit Committee

The Audit Committee comprised Claes Dahlbäck, Jonas Iversen, as well as Arne Mårtensson (Chairman) until the 2006 AGM and after the 2006 AGM Ebbe M Loiborg (Chairman). In 2006, the Committee held three meetings:

21 February 2006
Annual accounts, auditors' examination, internal control, the Cruzan acquisition.

21 August 2006
Six-month accounts, focus of the audit, internal control.

30 November 2006
The auditors' report on the ongoing inspection, the nine-month accounts, report from internal control, discussion about IT security.

Remuneration Committee

The Remuneration Committee comprised Claes Dahlbäck (Chairman), Ebbe M Loiborg (until the 2006 AGM), Mats G Ringesten (after the 2006 AGM) and Lars Danielsson. In 2006, the Committee held one meeting:

28 March 2006
Establishment of the CEO's terms of employment and guidlines for the Group Management's terms of employment.

PRESENCE AT MEETINGS IN 2006

	Board	Audit Committee	Remuneration Committee
Claes Dahlbäck	8	3	1
Anders Björck	8		
Lars Danielsson[1]	6		1
Jonas Iversen	8	3	
Sonia Karlsson[2]	4		
Ebbe M Loiborg[3]	8	2	1
Arne Mårtensson[4]	1	1	
Helle Kruse Nielsen	7		
Mats G Ringesten	8		
Johan Lund	5		
Jan Lundin	8		
Kent Karlsson[5]	7		
Roger Möller[5]	7		
Total no. of meetings	**8**	**3**	**1**

1 Up until October 2006.
2 As of the AGM 2006.
3 Member of the Audit Committe as of the 2006 AGM.
4 Up until the AGM 2006.
5 Deputy.

Fees

Fees for Board members elected by the AGM are established by the AGM for the period 1 July-30 June. Fees for the first half of the 2006 calendar year were therefore determined at the 2005 AGM and fees for the second half of the year were determined at the 2006 AGM.

In accordance with the 2006 AGM, the Chairman shall be paid a fixed fee of SEK 229,000 (230,000) annually. Other members elected by the AGM are paid a fixed fee of SEK 109,000 (105,000) annually.

For work in the Audit Committee a fee of SEK 45,000 (45,000) is paid to the committee Chairman and SEK 35,000 (35,000) to committee member. For work in the Remuneration Committee a fee of SEK 25,000 (25,000) is paid to the committee Chairman and SEK 15,000 (15,000) to committee member.

The Board members' independence

In terms of independence in relation to shareholders, the Swedish state ownership policy clarifies that nominations for the Board should be published in line with the Code's guidelines, although independence in relation to major shareholders is not covered. The Code stipulates a minimum number of Board members independent of major shareholders and that all Board members' independence must be reported. This is mainly to protect minority shareholders. In companies owned entirely by the state and companies with few part-owners, this safeguard is not necessary.

In terms of independence towards the company, Chairman of the Board Claes Dahlbäck is not independent as he has been a Board member since 1991. Other Board members elected by the AGM are, however, independent in relation to the company.

AUDITORS

At the 2004 AGM the audit company KPMG Bohlins AB was appointed to act as company auditor for a term of four years as set out in the Articles of Association. The responsible auditor is:

STEFAN HOLMSTRÖM
Born 1949. Authorized Public Accountant. Appointed 2004.

Owe Eurenius, Authorized Public Accountant, was the chief auditor from 2004 to his retirement in 2006.

Remuneration paid to KPMG Bohlins AB for the audit and other assignments is shown in Note 7 of the 2006 Annual Report.

V&S GROUP

The company, V&S Vin & Sprit AB (publ), is the parent company of a Group which has wholly-owned operations in ten countries. The Group, V&S Group, acts as an integrated unit, irrespective of whether a certain part of the business is run within the Parent Company or a Group company. The exception to the integrated structure is those parts of Cruzan International, Inc. which the Group does not intend to retain long-term and which therefore come under the separate entity Florida Distillers.

In addition to the operations in the Parent Company and Group companies, important distribution services are carried out for the Group's core business in the part-owned distribution partnerships Future Brands LLC and Maxxium Worldwide B.V.

The Group's operation is divided into three business areas. Each business area has operational goals and a required return. The business areas are responsible for implementing the Group's various goals and guidelines, and for developing their own business operations. Each business area is managed by a Business Area President and a management group.

GROUP MANAGEMENT

The Group's ongoing operation is led by the CEO. The Group Management also includes the three Business Area Presidents and five Group Staff managers.

The Group Management is an information, discussion and decision-making forum for Group-wide issues. It meets one full day each month and on two other longer occasions during the year, often in combination with study visits.

All major "cross-boundary" issues, i.e. issues affecting more than one business area, country or function, are decided in the Group Management. A review and analysis of the month's financial results is carried out at each Group Management meeting, and the CEO and other members also report and discuss important events and plans. Moreover, each business area gives a presentation of its most important activities and plans.

Recruitment

The CEO is appointed by the Board of Directors. The Executive Vice President is appointed by the Board on the proposal of the CEO. Other members of the Group Management are appointed by the CEO.

Remuneration to Group Management

Principles

Remuneration to the CEO comprises a monthly salary and other benefits, along with payment of a service pension premium.

Remuneration to other members of the Group Management comprises a basic salary, a variable proportion, other benefits and a pension provision in the form of premiums and/or liability accounting.

Remuneration and other benefits during the year

A detailed specification is provided in the company's 2006 Annual Report, Note 26.

Preparation and decision-making

For the CEO's salary and terms of employment, a Remuneration Committee appointed by the Board plans and

Group Management

BENGT BARON

President and CEO since 2004. Born 1962, employed 2001. Swedish citizen.

President V&S Absolut Spirits from 2001 until 30 January 2005. Former positions include StepStone, Kodak, McKinsey and Coca-Cola. Board member of Cloetta Fazer, Pendulum and The Sweden-America Foundation.

ROLF CASSERGREN

Executive Vice President since 2001 and President V&S Distillers since 2004. Born 1958, employed 1996. Swedish citizen.

Senior Vice President Finance 1996–2002. Former positions include certified accountant with KPMG and Chief Financial Officer at Coop Sweden.

ANDERS CARLSON

President V&S Wine since 22 February 2006. Born 1965, employed 2006. Swedish citizen.

Former positions include Managing Director Fujicolor Sweden 2003–2005, consultant at Bellstrom 2002, Managing Director StepStone Sweden 2000–2002.

KETIL ERIKSEN

President V&S Absolut Spirits since 2005. Born 1963, employed 2005. Norwegian citizen.

Former positions include General Manager Colgate-Palmolive Sweden & Finland 1999–2005. Board Chairman of Maxxium, Board member of Future Brands, Almondy AB and DFK AB.

MATS ANDERSSON

Senior Vice President Business Development since 1999. Born 1956, employed 1993. Swedish citizen.

Former positions include Vice President of the Wine Division within V&S Group.

JACOB BROBERG

Senior Vice President Corporate Affairs & Communications since 2005. Born 1964, employed 2005. Swedish citizen.

Former positions include Electrolux 2001–2005 and Länsförsäkringar 2000-2001.

OLA SALMÉN

Senior Vice President Finance since 2002. Born 1954, employed 2002. Swedish citizen.

Former positions include STORA, Handelsbanken Markets and CFO at Adcore 2000–2001. Board member of Maxxium and Petersson & Wagner Fonder AB.

MIKAEL SPÅNGBERG

Senior Vice President Legal Affairs 1996–2001 and since 2004. Born 1957, employed 1996–2001 and from 2003. Swedish citizen.

Former positions at patent and law firms. Board member of Genberg Underwater Hotel AB.

GUNILLA WINLUND

Senior Vice President Human Resources since 2000. Born 1951, employed 2000. Swedish citizen.

Former positions include own business and HR Director of Securum.

proposes pay and other terms of employment, after which the proposal passes to the Board for a decision.

For other senior managers, the CEO decides the pay and other conditions of employment, based on market conditions and in accordance with state guidelines regarding terms of employment for senior executives in state-owned companies.

THE GROUP'S VISION AND STRATEGIES

V&S overall strategies are to:

- Continue to develop and strengthen the ABSOLUT VODKA brand.
- Secure the position as the leading alcoholic beverage company in Northern Europe.
- Acquire and develop spirits brands with international potential.

V&S's vision is global leadership on the wine and spirits market, based on ability to create value, skills to build brands admired and enjoyed by consumers, and courage to act responsibly. The vision permeates the Group's core values – dynamic, responsible, innovative and long-term performance – which are the foundation of the Group's work.

FINANCIAL GOALS

The 2005 AGM adopted the following financial goals for the company:

- The Group's equity/assets ratio should be 35 per cent.
- The Group's dividend shall be 10.5 per cent of the average equity in the long term. When establishing the dividend, the company's financial position and anticipated capital requirements shall be taken into consideration.

The Group shall be evaluated based on the financial goals for the period up until the end of 2010, when the goals shall also be evaluated and possibly revised.

The overall financial goals are translated internally within the Group to a requirement of 12.5 per cent return on adjusted capital employed for the business areas. The Group goal is then further translated into sales and profit targets for various units. Follow-up takes place within the framework of ongoing reporting and Business Review Meetings (see below).

WORK METHODS AND RESPONSIBILITY ISSUES

Since 2004, V&S has a code of business ethics and conduct, "The V&S Way on Responsibility". The code regulates the Group's behaviour in relation to the market, the workplace, society and the environment. The code is also a pledge by V&S to comply with prevailing industry codes and similar in the markets in which the company operates, including Common Standards in Europe and industry organization Discus's code of conduct in the United States.

Environment

Environmental management in V&S is based on the environmental policy in the code of conduct, and the overall environmental objectives. V&S's targets include reducing carbon dioxide emissions, a higher percentage of organic/eco-friendly products, and more efficient use of resources. In addition each plant has specific environmental targets and action plans. The V&S Environmental Management Manual provides a systematic approach across the Group and supports that the monitoring of environmental data is quality assured. Moreover, assessments of environmental impact and risks, along with documentation on legal requirements and stakeholder requirements on environmental activities, are carried out.

Responsible drinking

V&S strives to promote responsible drinking and assumes responsibility for whom the products are targeted at and for ensuring that the marketing to consumers is responsible. V&S also disseminates knowledge and information about what responsible drinking entails.

V&S's membership in the European Forum for Responsible Drinking (EFRD), an alliance of large alcoholic beverage companies in Europe, and the work of similar national organizations, gives the company an insight into the requirements and expectations of the alcohol industry from many different international stakeholders. V&S follows the binding Common Standards which have been adopted by the EFRD and are constantly being developed.

To improve and co-ordinate the way V&S's marketing is monitored, a marketing council has been formed for each business area during the year.

Employees and the workplace

The company's values, which are included in "The V&S Way on Responsibility", form the basis of relations with employees. V&S has guidelines and documented processes for carrying out recruitment, development and unit closures. The annual employee appraisal session is the main tool allowing V&S to contribute to the development of the workplace and the individual.

In connection with reorganizations, V&S provides various forms of support for people who are forced to leave the company. V&S carries out regular employee surveys in collaboration with TNS Gallup. Part of the aim is to measure employees's motivation and commitment to the operation.

Health and safety

V&S seeks to promote the health and safety of its employees in a number of ways. Measures, follow-up and preventative action take place at local level and are adapted to the nature of the work. At units where accidents occur in the workplace, the causes are examined and corrective measures are taken.

Diversity

V&S is of the opinion that diversity in the workplace leads to a more creative working environment, increases productivity and improves job satisfaction. It is also important that the company's employees reflect V&S's customers and markets.

Diversity issues will be given greater emphasis through the follow-up by management of key performance indicators linked to under-representation in gender and nationality, as well as degree of internal recruitment.

The environment and social responsibility in connection with procurement

V&S apply supplier evaluations covering environmental, working environment and social responsibility aspects. It is important to ensure that V&S's suppliers in their business dealings are not acting in contravention of V&S's values and commitments to responsibility. A supplier evaluation is conducted in two stages. First, the supplier is assessed on a list of general criteria. Depending on the nature of the purchase, V&S supplements the evaluation with specific criteria.

FOLLOW-UP OF OPERATIONS IN BUSINESS AREAS AND GROUP STAFF FUNCTIONS

The CEO follows up developments in the various business areas through the ongoing monthly reports, which detail developments in sales volume, net sales and profitability for each business area and individual market. The follow-up takes place for each month and accumulated for the year as a whole, in rolling 12-month averages and compared with previous year and the budget.

Business Review Meetings are held four times a year whereby business area managements present operational results and future plans. The implementation of environmental goals, codes of conduct and other guidelines are also monitored.

Similar Functional Review Meetings are held with the function managers four times a year.

RISKS

Responsibility for identifying and managing risks in the Group primarily follows the organizational structure and is one of the most important areas of responsibility for V&S managers at various levels. Striving for the greatest possible openness and a discussion climate which encourages employees to question decisions and distribute information are vital components of the V&S management philosophy, and a prerequisite for achieving a good general control environment and purposeful risk management.

Risks within the Group are divided into the following areas:

- Business risks – that V&S's products can no longer be sold to the same extent as before.
- Operational risks – that production must be stopped due to a lack of raw materials, machinery breakdown or similar.
- Financial risks – that exchange rates, interest rates, liquidity or other factors have an adverse effect on the company.
- Accounting risks – that the financial information produced at different levels in the company is incorrect.
- Physical risks – such as fire, theft, explosion or product poisoning.
- Legal risks – that, for example, the company is found liable for any damage or injury which may be linked to the company's products.
- Risks to reputation – that a situation, or failure to bring about a situation, in the company is criticized so severely in the media or in some other way that it has a significant impact on the company's reputation and, in the long run, on profitability.

Business risks

By far the greatest risk is the development of market demand for the Group's products. The Group operates in local, regional and international market segments characterized by tough competition where new products are launched at a high rate, particularly in the Group's most important market – the United States. The ability to remain at the cutting edge when it comes to product development, marketing and distribution is therefore vital if the business is to continue developing positively.

The continued international consolidation in the alcohol industry, combined with the increasingly strong position of the retail trade, is leading to stronger competition in the Group's area of operation. Should the Group fall too far behind in this development, it could have a negative impact in the long term on its ability to distribute products efficiently.

Financial risks

When it comes to financial risks, currency risks are the most significant. The Group sells a large proportion of its products on the US market and other markets which use the US dollar for transactions. The Group's gross margin is therefore heavily influenced by the development of the dollar exchange rate. The Group attempts to reduce the currency risk, primarily by selling part of the future dollar flow under forward agreements. Such measures can compensate for a fall in the US dollar for a limited period, but should the fall in the dollar exchange rate against the Swedish krona be long lasting, it would have a negative effect on the Group's results.

Legal risks

One of the more significant legal risks is infringement of the company's registered and established trademarks. This engenders a risk of the company losing out on sales both directly as a result of consumers not being able to perceive the difference between the V&S product and the imitation, and indirectly if the confusion affects consumers' perception of V&S's product quality.

The Group's legal department works proactively in this field to minimize these risks as far as possible.

Another type of risk is related to legislation regulating the handling of alcoholic beverages in different countries. It is not impossible that a producer, distributor or retailer behaves in such a way as to cause repercussions for other companies in the industry as well. One such example is the class actions in the United States regarding alleged marketing targeted at young people. These types of claims have, however, been rejected in several courts to date.

The industry's conduct in a broader sense than the legal one is very important to V&S's ability to operate. The company's ability to supply alcoholic beverages for responsible use may be affected by the conduct of the company itself, of other companies and of the industry as a whole. The Group is therefore working in a goal-conscious way to develop and implement guidelines for its own actions and for the company's business partners and the wider industry.

Other risks

The other risks described above may also have an adverse impact on the Group's results. The Group works systematically to reduce the risk of such negative effects arising. This process includes a systematic review of the Group's insurance protection to ensure that appropriate insurance solutions are in place in those areas where it is deemed necessary.

To minimize the risk of errors arising in the company's financial reports, an internal audit function has been set up to examine the company's accounts and internal control. See the section below on internal control.

Risk management

The main risks are therefore strategic in nature, and a strategic risk approach is therefore pivotal to the Group's planning process. Consequence analyses, risk analyses and risk workshops are examples of tools used in this work.

In addition risk definitions, risk report procedures, crisis management plans and continuity plans, for example, are continuously under development.

With the aim of further increasing awareness of risks and of creating a Group-wide systematic approach to risk management, a Risk Council has been established comprising the Group's Risk Manager and members from the Group management and business areas. The Risk Council co-ordinates the Group's risk management activities and is responsible for general insurance issues. This work is supported by a Risk Management Policy.

INFORMATION FROM V&S GROUP

The main aim of the Swedish Code of Corporate Governance is to guarantee the information requirement of shareholders. Although V&S is not a listed company, V&S essentially follows the same policy on providing information that applies for listed companies. This is partly to satisfy the general public's information requirement in line with the state's ownership policy and it is also an advantage in V&S's business relations, both on capital markets and in day-to-day business operations.

The Annual Report, which as of 2006 includes the Corporate Responsibility Report is printed in Swedish and English and also published at vsgroup.se and vsgroup.com respectively. The Annual Report is also submitted to the Swedish parliament. Interim reports are published in Swedish and English online and issued within a month of the end of an accounting period, with the exception of the half-year report which has been issued within two months of the end of the period. The nine-month report has been subject to a limited review by the company's auditors. Information on the next AGM has been published in the nine-month report and online. There is an opportunity for interested members of the general public to attend the AGM after registering on the Group's website or in writing. Parliament is notified of the AGM in accordance with the Articles of Association.

Information about the nomination process in accordance with the state ownership policy is provided on the Group's website. The Articles of Association and the minutes from the last AGM can also be found on the website. In addition, the website has also various other corporate information.

DEVIATIONS FROM THE SWEDISH CODE OF CORPORATE GOVERNANCE

V&S deviates from the Swedish Code of Corporate Governance in the following points:

• 2.1. Nomination Committee, including sub-points
See Nomination process above.

• 3.7.3. Internal audit
V&S has not employed internal auditors, but believes that the internal audit work can be carried out more effectively by procuring the service from an external supplier. After an evaluation process in autumn 2004 and winter 2005, the assignment was given to PricewaterhouseCoopers. The internal audit reports directly to the Audit Committee.

INTERNAL CONTROL

V&S's internal control process has been designed to ensure good internal control, which partly entails handling and minimizing the risk of errors in financial reporting. The process is based on the control environment and the related four components defined in accordance with The Committee of Sponsoring Organisations of the Treadway Commission, COSO.

Control environment

The Board has ultimate responsibility for internal control regarding financial reporting. This responsibility primarily entails being privy to the reporting submitted by the corporate management to the Board, through the plans, directives and appointments decided upon by the Board, and through work in the Audit Committee.

Responsibilities and authority are partly defined in the CEO's instructions, instructions regarding authorization rights, the V&S Financial Manual, the treasury policy, policies and guidelines in HR, IT and risk management, and V&S's code of conduct entitled "The V&S Way on Responsibility". The documents are reviewed and updated annually as necessary.

Internal control includes methods and activities for securing assets, checking the accuracy and reliability of reporting, and for ensuring compliance with prevailing guidelines.

The control environment also includes an internal audit, which is procured from PricewaterhouseCoopers. The internal audit reports directly to the Audit Committee.

Risk assessment

Risk assessment entails identifying, measuring and charting the sources of risk. Risk analysis is a recurring process which forms the basis both for prioritizing continued efforts to maintain and strengthen internal control, and for the work of the internal audit.

A comprehensive risk analysis was carried out in 2005 where each line in the income statement and balance sheet was evaluated based on risk, materiality and existing controls. Based on this risk analysis, efforts have been made in 2006 to secure and document the existing internal control processes for financial reporting in a structured way and to evaluate the need for further development in this area.

Moreover, approximately 30 operational controllers carried out a joint, in-depth analysis and measurement of previously identified risks and controls in line with the COSO model.

Control activities

The aim of the control activities is to prevent, detect and correct errors and deviations. Control activities are incorporated into the processes for accounting and reporting but also encompass controls in IT systems and the IT environment.

All subsidiaries report monthly in accordance with a standardized report procedure documented in the V&S Financial Manual, which is available via the Group's intranet. This reporting forms the basis for all the Group's consolidated financial reporting. Consolidation takes place from both a legal and an operational perspective, resulting in quarterly legal and monthly operational financial reports. All consolidation is carried out centrally. The quarterly reports are published on the V&S website and the third quarter report has been subject to limited review by the company's external auditors.

All financial reporting is stored in a central database from which data are obtained for analysis and follow-up at Group, business area and unit level. The analysis contains standardized templates for following up income statement and balance sheet items, along with key ratios in relation to set goals.

Each legal unit has a controller whose responsibilities include ensuring there are adequate internal control procedures, and compliance with the Group's guidelines and principles as set out in the V&S Financial Manual. There are also controllers at business area and Group level with equivalent responsibilities at an aggregate level.

Processes for sales, procurement, warehousing, consolidation and closing procedures have been mapped and documented for the Group's larger units during the year. The controls in these processes have been tested and the outcome has been documented. In addition, there has been an extensive review of all legal units which have completed a self assessment on topics such as risk management, income reporting, inventory control, fixed assets and general accounting.

V&S has guidelines and procedures for ensuring that acquisitions of operations have official approval, and that the financial, operational and environmental consequences of each acquisition are carefully analyzed. The Group regularely evaluates performed acquisitions.

Information and communication

Reports to the Board essentially comprise the CEO's monthly written memos, the company's quarterly financial reports and the presentations by the CEO, Senior Vice President Finance and Business Area Presidents at the board meetings. The Board receives information from the company's auditors at least once a year and from the Audit Committee on additional occasions.

Monitoring

The internal audit's task is to review the internal controls regarding financial reporting, and it follows the plan adopted by the Board in 2005. The result of the internal audit's reviews, the measures to be taken and their status are continuously reported to the Audit Committee.

During the year, the internal audit has focused on evaluating the internal control and IT security, partly through audits in Sweden, Denmark and the United States. The shortcomings that have been identified have either been tackled directly or an action plan has been drawn up. The largest improvements have been made in IT security and this is also a high priority in the ongoing process of improvement.

The Corporate Governance Report is not subject to auditing by the company's auditors.

Review 1997–2006

	IFRS			Previous accounting principles*						
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
INCOME STATEMENT, SEK millions										
Net sales	10,345.4	9,578.1	9,013.3	9,027.9	8,749.5	6,453.7	5,711.5	4,028.6	3,446.9	3,223.6
Shares in associated companies' and joint ventures' results	238.3	213.9	46.7	73.5	55.8	101.1				
Other operating revenues	312.8	155.5	95.7	144.3	125.6	63.1	104.3	43.2	32.3	–10.3
	10,896.5	**9,947.5**	**9,155.7**	**9,245.7**	**8,930.9**	**6,617.9**	**5,815.8**	**4,017.8**	**3,479.2**	**3,213.3**
Operating expenses	–8,357.2	–7,688.7	–7,322.7	–6,945.8	–6,374.3	–4,458.8	–4,177.4	–2,924.9	–2,626.8	–2,449.8
Depreciation/amortization and write-down	–264.4	–189.7	–199.4	–582.8	–519.2	–394.9	–235.0	–85.6	–130.7	–105.7
Non-recurring items	–	–	–	–	–	–	46.1	–143.3	287.3	–17.0
Operating profit	**2,274.9**	**2,069.1**	**1,633.6**	**1,717.1**	**2,037.4**	**1,764.2**	**1,449.5**	**918.0**	**1,009.0**	**640.8**
Financial items, net	–280.9	–133.7	–14.5	–107.5	–168.4	–292.5	–16.2	46.0	50.6	31.5
Profit before taxes	**1,994.0**	**1,935.4**	**1,619.1**	**1,609.6**	**1,869.0**	**1,471.7**	**1,433.3**	**964.0**	**1,059.6**	**672.3**
Taxes	–416.8	–429.7	–519.7	–614.6	–598.5	–462.0	–437.2	–273.5	–197.3	–175.0
Minority share				–1.2	–5.7	–0.5	–61.9	–0.3	–0.8	–0.4
Profit for the year	**1,577.2**	**1,505.7**	**1,099.4**	**993.8**	**1,264.8**	**1,009.2**	**934.2**	**690.2**	**861.5**	**496.9**
Attributable to parent company shareholders	1,571.9	1,501.3	1,097.3							
Attributable to minority interest	5.3	4.4	2.1							
BALANCE SHEET, SEK millions										
Intangible assets	4,008.8	4,097.4	2,570.7	2,514.4	2,824.0	2,294.2	2,478.7	1,625.8	229.8	242.0
Tangible assets	1,817.6	2,056.1	1,720.5	1,650.3	1,478.1	1,159.4	1,040.4	1,111.7	687.2	860.5
Financial assets	6,995.4	6,180.3	5,485.8	6,497.5	7,451.3	8,636.8	15.7	0.0	0.3	0.3
Current assets	5,052.3	4,787.6	4,950.3	4,239.5	3,949.9	2,837.4	2,176.9	4,494.8	3,000.1	2,298.9
Total assets	**17,874.1**	**17,121.4**	**14,727.3**	**14,901.7**	**15,703.3**	**14,927.8**	**5,711.7**	**7,232.3**	**3,917.4**	**3,401.7**
Equity attributable to parent company shareholders'	7,232.2	6,323.4	5,049.0	4,496.3	4,222.1	3,694.2	2,933.8	2,162.8	2,313.2	1,866.7
Attributable to minority interest	15.2	562.9	69.8	58.7	13.3	10.8	10.5	115.4	1.3	0.8
Provisions	–	–	–	1,096.4	879.3	645.4	517.1	705.1	549.5	560.1
Long-term liabilities	5,928.1	6,758.5	6,759.7	6,787.4	6,657.9	8,631.4	835.9	1,644.0	2.2	5.8
Current liabilities	4,698.6	3,476.6	2,848.8	2,462.9	3,930.7	1,946.0	1,414.4	2,605.0	1,051.2	968.3
Total equity, provisions and liabilities	**17,874.1**	**17,121.4**	**14,727.3**	**14,901.7**	**15,703.3**	**14,927.8**	**5,711.7**	**7,232.3**	**3,917.4**	**3,401.7**
CASH FLOW ANALYSIS, SEK millions										
Cash and cash equivalents at beginning of period	626.4	1,462.1	958.1	563.1	248.6	191.0	2,753.3	1,829.0	1,126.8	929.2
Cash flow from operating activities	1,590.7	960.8	1,315.2	2,009.3	1,447.8	1,246.2	–102.1	808.3	749.8	536.8
Cash flow from investing activities	–1,644.2	–892.8	–233.6	–29.0	–1,030.0	–8,517.4	–998.3	–685.8	370.9	–74.1
Cash flow from financing activities	–146.4	–936.1	–608.9	–1,568.8	–90.7	7,324.0	–1,464.5	801.5	–418.5	–265.1
Cash flow for the year	**–219.9**	**–868.1**	**472.7**	**411.5**	**327.1**	**52.8**	**–2,564.9**	**924.0**	**702.2**	**197.6**
Exchange rate difference in cash and cash equivalents	–6.4	32.4	31.3	–16.5	–12.6	4.8	2.6	0.3	–	–
Cash and cash equivalents, closing balance	400.1	626.4	1,462.1	958.1	563.1	248.6	191.0	2,753.3	1,829.0	1,126.8

* In the review, each year is presented according to applicable accounting principles. The years 1997–2003 are presented according to generally accepted accounting principles in Sweden for each year respectively. As of 2004 the reporting is based on IFRS.

	IFRS			Previous accounting principles**						
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
KEY RATIOS										
Sales volume										
Volume, million 9-litre cases	25.7	24.9	24.6	23.4	19.3	14.4	14.6	11.9	10.9	11.1
Yield ratios										
Return on equity, %1)	22.3	25.1	23.2	22.8	32.0	30.5	34.8	37.2	27.5	29.3
Capital ratios										
Interest-bearing net liability, SEK mn2)	5,267	5,153	4,053	6,230	8,086	8,485	682	–963	–1,643	–928
Debt/equity, times3)	0.7	0.7	0.8	1.4	1.9	2.3	0.2	–0.4	–0.7	–0.5
Earnings ratios										
Operating margin, adjusted, %4)	22.0	21.6	18.1	19.0	23.3	27.3	24.6	26.3	20.9	20.4
Operating margin, %5)	22.0	21.6	18.1	19.0	23.3	27.3	25.4	22.8	29.3	19.9
Capital turnover										
Turnover rate of capital, times/year6)	0.59	0.60	0.62	0.59	0.57	0.63	0.88	0.72	0.94	0.96
Sales/employee, SEK mn7)	4.5	4.3	3.9	4.0	5.0	4.8	4.2	5.2	4.9	4.4
Turnover rate of inventories, times/year8)	9.2	8.3	8.8	8.9	11.0	11.2	10.8	9.4	10.1	8.9
Equity/assets ratio										
Eqiuty/assets ratio, %9)	40.5	40.2	34.8	30.2	26.9	24.7	51.4	29.9	59.0	54.9
Dividends										
Dividends/capital10)	10.5	10.6	8.5	8.0	15.7	15.1	17.9	10.3	40.2	23.7
Employees										
Employees, average number	2,304	2,245	2,283	2,273	1,751	1,336	1,375	771	698	729

DEFINITIONS

1) Net profit* as a percentage of average equity. The minority share has been excluded.
2) Interest-bearing liability less interest-bearing assets, all calculated at year-end.
3) Interest-bearing net liability divided by equity, all calculated at year-end..
4) Operating profit* as a percentage of sales.
5) Operating profit as a percentage of sales.
6) Net sales divided by average total assets.
7) Net sales divided by average number of employees.
8) Net sales divided by average inventories.
9) Equity as a percentage of total assets.
10) Dividend for a particular year as a percentage of equity (exc. minority interest) in that year. For 2006 a proposed dividend is shown.

* Excluding non-recurring items.

** In the review, each year is presented according to applicable accounting principles. The years 1997-2003 are presented according to generally accepted accounting principles in Sweden for each year respectively. As of 2004 the reporting is based on IFRS.

Quarterly data*

GROUP

		Q1	Q2	Q3	Q4	Total
Net sales, SEK mn	**2006**	**2,238**	**2,604**	**2,529**	**2,974**	**10,345**
	2005	1,935	2,355	2,230	3,058	9,578
Operating profit, SEK mn	**2006**	**417**	**668**	**549**	**641**	**2,275**
	2005	318	502	558	691	2,069
Operating margin, %	**2006**	**18.6%**	**25.7%**	**21.7%**	**21.6%**	**22.0%**
	2005	16.4%	21.3%	25.0%	22.6%	21.6%
Net profit for the period, SEK mn	**2006**	**251**	**375**	**329**	**622**	**1,577**
	2005	210	391	418	487	1,506
Sales volume, thousand 9-litre cases	**2006**	**5,240**	**6,627**	**6,432**	**7,433**	**25,732**
	2005	5,358	6,454	5,980	7,093	24,885

NET SALES BY BUSINESS AREA

SEK millions		Q1	Q2	Q3	Q4	Total
V&S Absolut Spirits	**2006**	**1,322**	**1,465**	**1,496**	**1,599**	**5,882**
	2005	1,102	1,361	1,312	1,627	5,402
V&S Distillers	**2006**	**384**	**484**	**455**	**625**	**1,948**
	2005	418	479	487	649	2,033
V&S Wine	**2006**	**421**	**547**	**506**	**685**	**2,159**
	2005	455	576	489	692	2,212
Other and eliminations	**2006**	**111**	**108**	**72**	**65**	**356**
	2005	–40	–61	–58	90	–69
Total	**2006**	**2,238**	**2,604**	**2,529**	**2,974**	**10,345**
	2005	1,935	2,355	2,230	3,058	9,578

* In the fourth quarter of 2006 the Group began applying the equity method rather than the proportional method in accounting for the Group's joint venture, Future Brands. Application is retroactive from the date of the business combination, which means that quarterly data for 2006 and the comparison figures for 2005 have been recalculated..

OPERATING PROFIT AND MARGIN BY BUSINESS AREA

SEK millions		Q1	Q2	Q3	Q4	Total
V&S Absolut Spirits	**2006**	**423**	**437**	**461**	**593**	**1,914**
	Margin, %	32.0%	29.8%	30.8%	37.1%	32.5%
	2005	348	460	430	519	1,757
	Margin, %	31.6%	33.8%	32.9%	31.8%	32.5%
V&S Distillers	**2006**	**28**	**73**	**53**	**130**	**284**
	Margin, %	7.3%	15.1%	11.6%	20.8%	14.6%
	2005	29	60	75	100	264
	Margin, %	6.9%	12.5%	15.4%	15.4%	13.0%
V&S Wine	**2006**	**–2**	**27**	**26**	**61**	**112**
	Margin, %	neg	4.9%	5.1%	8.9%	5.2%
	2005	–9	18	17	46	72
	Margin, %	neg	3.1%	3.5%	6.6%	3.3%
Capital gains/write-downs	**2006**	**–**	**136**	**7**	**–82**	**61**
	2005	–	–	58	–1	57
Other and eliminations	**2006**	**–32**	**–5**	**2**	**–61**	**–96**
	2005	–50	–36	–22	27	–81
Total	**2006**	**417**	**668**	**549**	**641**	**2,275**
	Margin, %	18.6%	25.7%	21.7%	21.6%	22.0%
	2005	318	502	558	691	2,069
	Margin, %	16.4%	21.3%	25.1%	22.6%	21.6%

VOLUME BY BUSINESS AREA

Thousand 9-litre cases		Q1	Q2	Q3	Q4	Total
V&S Absolut Spirits	**2006**	**2,344**	**2,825**	**2,903**	**3,123**	**11,195**
	2005	2,109	2,568	2,439	2,787	9,903
V&S Distillers	**2006**	**1,090**	**1,398**	**1,362**	**1,753**	**5,603**
	2005	1,284	1,402	1,416	1,718	5,820
V&S Wine	**2006**	**1,897**	**2,512**	**2,289**	**2,767**	**9,465**
	2005	2,066	2,606	2,258	2,733	9,663
Other and eliminations	**2006**	**–91**	**–108**	**–122**	**–210**	**–531**
	2005	–101	–122	–133	–145	–501
Total	**2006**	**5,240**	**6,627**	**6,432**	**7,433**	**25,732**
	2005	5,358	6,454	5,980	7,093	24,885

DISTRIBUTION BETWEEN QUARTERS

%		Q1	Q2	Q3	Q4
Net sales	**2006**	**22%**	**25%**	**24%**	**29%**
	2005	20%	25%	23%	32%
Operating profit	**2006**	**18%**	**29%**	**24%**	**28%**
	2005	15%	24%	27%	33%
Sales volume	**2006**	**20%**	**26%**	**25%**	**29%**
	2005	22%	26%	24%	29%

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